**OFFICIAL STATEMENT DATED JUNE 14, 2011**

**NEW ISSUE – Book-Entry-Only**

Ratings: Moody's: "Aa1"
Standard & Poor's: "AA+"
Fitch Ratings: "AA+"
(See "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of Bond Counsel, interest on the Series 2011A Bonds is excludable from gross income for federal income tax purposes under existing law, and the Series 2011A Bonds are not "private activity bonds." See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.*

*THE SERIES 2011A BONDS HAVE **NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

# $17,805,000
# CITY OF ARLINGTON, TEXAS
## (Tarrant County, Texas)
## Permanent Improvement and Refunding Bonds, Series 2011A

Dated: June 15, 2011 Due: August 15, as shown below

The $17,805,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2011A (the "Series 2011A Bonds") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2011A Bonds purchased. Interest on the Bonds will be payable on February 15 and August 15 of each year, commencing August 15, 2011.

**MATURITY SCHEDULE**

| (August 15) Maturity | Amount | Rate | Yield | CUSIP(1) | (August 15) Maturity | Amount | Rate | Yield | CUSIP(1) |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 895,000 | 2.000% | 0.350% | 041796CY7 | 2022 | $ 890,000 | 3.500% | 3.150% (2) | 041796DJ9 |
| 2013 | 890,000 | 2.000% | 0.570% | 041796CZ4 | 2023 | 890,000 | 4.000% | 3.400% (2) | 041796DK6 |
| 2014 | 890,000 | 2.000% | 0.870% | 041796DA8 | 2024 | 890,000 | 4.000% | 3.600% (2) | 041796DL4 |
| 2015 | 890,000 | 2.000% | 1.160% | 041796DB6 | 2025 | 890,000 | 4.000% | 3.750% (2) | 041796DM2 |
| 2016 | 890,000 | 2.000% | 1.400% | 041796DC4 | 2026 | 890,000 | 4.000% | 3.900% (2) | 041796DN0 |
| 2017 | 890,000 | 2.000% | 1.780% | 041796DD2 | 2027 | 890,000 | 4.000% | 4.000% | 041796DP5 |
| 2018 | 890,000 | 3.000% | 2.130% | 041796DE0 | 2028 | 890,000 | 4.000% | 4.050% | 041796DQ3 |
| 2019 | 890,000 | 3.000% | 2.440% | 041796DF7 | 2029 | 890,000 | 4.000% | 4.150% | 041796DR1 |
| 2020 | 890,000 | 3.000% | 2.680% | 041796DG5 | 2030 | 890,000 | 4.000% | 4.250% | 041796DS9 |
| 2021 | 890,000 | 3.000% | 2.860% | 041796DH3 | 2031 | 890,000 | 4.125% | 4.300% | 041796DT7 |

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor the Purchasers are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Series 2011A Bonds denoted and sold at a premium will be redeemed on August 15, 2021, the first optional call date for the Series 2011A Bonds, at a redemption price of par, plus accrued interest to the redemption date.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

**Separate Issues**. The Series 2011A Bonds are being offered by the City concurrently with the "City of Arlington, Texas Permanent Improvement Refunding Bonds, Series 2011B" (the "Series 2011B Bonds" and, together with the Series 2011A Bonds, the "Bonds") and the "City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2011" (the "Certificates"). The Series 2011A Bonds, Series 2011B Bonds and the Certificates are being offered under a common Official Statement and are hereinafter sometimes referred to collectively as the "Obligations." The Series 2011A Bonds, Series 2011B Bonds and the Certificates are separate and distinct securities offerings being issued and sold independently. While the Series 2011A Bonds, Series 2011B Bonds and the Certificates share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

**Optional Redemption.** The City reserves the right, at its option, to redeem Series 2011A Bonds having stated maturities on and after August 15, 2022, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "THE OBLIGATIONS – Optional Redemption").

**Legality.** The Series 2011A Bonds are offered for delivery when, as and if issued and received by the Purchasers, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins LLP, Bond Counsel. (See APPENDIX C "Form of Bond Counsel Opinion").

**Delivery.** It is expected that the Series 2011A Bonds will be delivered through the facilities of DTC on or about July 7, 2011.

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**OFFICIAL STATEMENT DATED JUNE 14, 2011**

**NEW ISSUE – Book-Entry-Only**

Ratings: Moody's: "Aa1"
Standard & Poor's: "AA+"
Fitch Ratings: "AA+"
(See "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of Bond Counsel, interest on the Series 2011B Bonds is excludable from gross income for federal income tax purposes under existing law, and the Series 2011B Bonds are not "private activity bonds." See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.*

*THE SERIES 2011B BONDS HAVE* ***NOT*** *BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

# $15,185,000
# CITY OF ARLINGTON, TEXAS
## (Tarrant County, Texas)
## Permanent Improvement Refunding Bonds, Series 2011B

Dated: June 15, 2011 Due: August 15, as shown below

The $15,185,000 City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2011B (the "Series 2011B Bonds") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2011B Bonds. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable on February 15 and August 15 of each year, commencing August 15, 2011.

## MATURITY SCHEDULE

| (August 15) Maturity | Amount | Rate | Yield | CUSIP(1) | (August 15) Maturity | Amount | Rate | Yield | CUSIP(1) |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 4,000,000 | 2.000% | 0.330% | 041796EQ2 | 2017 | $ 655,000 | 2.125% | 1.750% | 041796EV1 |
| 2013 | 2,565,000 | 2.750% | 0.570% | 041796ER0 | 2018 | 635,000 | 2.125% | 2.100% | 041796EW9 |
| 2014 | 2,480,000 | 2.000% | 0.850% | 041796ES8 | 2019 | 610,000 | 2.500% | 2.400% | 041796EX7 |
| 2015 | 1,595,000 | 2.000% | 1.150% | 041796ET6 | 2020 | 590,000 | 2.750% | 2.600% | 041796EY5 |
| 2016 | 1,490,000 | 2.000% | 1.400% | 041796EU3 | 2021 | 565,000 | 2.875% | 2.800% | 041796EZ2 |

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**Separate Issues**. The Series 2011B Bonds are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2011A" (the "Series 2011A Bonds" and, together with Series 2011B Bonds, the "Bonds") and the "City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2011" (the "Certificates"). The Series 2011A Bonds, Series 2011B Bonds and the Certificates are being offered under a common Official Statement and are hereinafter sometimes referred to collectively as the "Obligations." The Series 2011A Bonds, Series 2011B Bonds and the Certificates are separate and distinct securities offerings being issued and sold independently. While the Series 2011A Bonds, Series 2011B Bonds and the Certificates share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

**Optional Redemption.** The Series 2011B Bonds are non-callable.

**Legality.** The Series 2011B Bonds are offered for delivery when, as and if issued and received by the Purchasers, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins LLP, Bond Counsel. (See APPENDIX C "Form of Bond Counsel Opinion").

**Delivery.** It is expected that the Series 2011B Bonds will be delivered through the facilities of DTC on or about July 7, 2011.

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**OFFICIAL STATEMENT DATED JUNE 14, 2011**

**NEW ISSUE – Book-Entry-Only**

Ratings: Moody's: "Aa1"
Standard & Poor's: "AA+"
Fitch Ratings: "AA+"
(See "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not "private activity bonds." See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.*

*THE CERTIFICATES HAVE **NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

# $1,770,000
# CITY OF ARLINGTON, TEXAS
## (Tarrant County, Texas)
## Combination Tax and Revenue Certificates of Obligation, Series 2011

Dated: June 15, 2011 Due: August 15, as shown below

The $1,770,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2011 (the "Certificates") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing August 15, 2011.

**MATURITY SCHEDULE**

| (August 15) Maturity | Amount | Rate | Yield | CUSIP[(1)] | (August 15) Maturity | Amount | Rate | Yield | CUSIP[(1)] |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 85,000 | 2.000% | 0.350% | 041796DU4 | 2022 | $ 90,000 | 3.500% | 3.250% [(2)] | 041796EE9 |
| 2013 | 85,000 | 2.000% | 0.590% | 041796DV2 | 2023 | 90,000 | 4.000% | 3.500% [(2)] | 041796EF6 |
| 2014 | 85,000 | 2.000% | 0.890% | 041796DW0 | 2024 | 90,000 | 4.000% | 3.650% [(2)] | 041796EG4 |
| 2015 | 90,000 | 2.000% | 1.200% | 041796DX8 | 2025 | 90,000 | 4.000% | 3.800% [(2)] | 041796EH2 |
| 2016 | 90,000 | 2.000% | 1.530% | 041796DY6 | 2026 | 90,000 | 4.000% | 3.900% [(2)] | 041796EJ8 |
| 2017 | 90,000 | 2.000% | 1.800% | 041796DZ3 | 2027 | 90,000 | 4.000% | 4.000% | 041796EK5 |
| 2018 | 90,000 | 3.000% | 2.190% | 041796EA7 | 2028 | 90,000 | 4.000% | 4.100% | 041796EL3 |
| 2019 | 90,000 | 3.000% | 2.490% | 041796EB5 | 2029 | 85,000 | 4.000% | 4.200% | 041796EM1 |
| 2020 | 90,000 | 3.000% | 2.750% | 041796EC3 | 2030 | 85,000 | 4.125% | 4.300% | 041796EN9 |
| 2021 | 90,000 | 3.000% | 2.950% | 041796ED1 | 2031 | 85,000 | 4.250% | 4.400% | 041796EP4 |

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor the Purchasers are responsible for the selection or correctness of the CUSIP numbers set forth herein.
(2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on August 15, 2021, the first optional call date for the Certificates, at a redemption price of par, plus accrued interest to the redemption date.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

**Separate Issues**. The Certificates are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2011A" (the "Series 2011A Bonds") and the "City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2011B" (the "Series 2011B Bonds" and, together with the Series 2011A Bonds, the "Bonds"). The Certificates and the Bonds are being offered under a common Official Statement and are hereinafter sometimes referred to collectively as the "Obligations." The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently. While the Certificates and Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

**Optional Redemption.** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "THE OBLIGATIONS – Optional Redemption").

**Legality.** The Bonds are offered for delivery when, as and if issued and received by the Purchasers, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins LLP, Bond Counsel. (See APPENDIX C "Form of Bond Counsel Opinion").

**Delivery.** It is expected that the Certificates will be delivered through the facilities of DTC on or about July 7, 2011.

## OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

**THE CITY**....................................... The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and eight miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.4 square miles operates under a Council/Manager form of government (see "INTRODUCTION – The Issuer").

**THE SERIES 2011A BONDS**......... The $17,805,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2011A, dated June 15, 2011, will be issued as serial bonds maturing on August 15 in each of the years 2012 through 2031 (see "THE OBLIGATIONS - General").

**THE SERIES 2011B BONDS**......... The $15,185,000 City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2011B, dated June 15, 2011, will be issued as serial bonds maturing on August 15 in each of the years 2012 through 2021 (see "THE OBLIGATIONS - General").

**THE CERTIFICATES** ..................... The $1,770,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2011, dated June 15, 2011, will be issued as serial certificates maturing on August 15 in each of the years 2012 through 2031 (see "THE OBLIGATIONS - General").

**PAYMENT OF INTEREST**............ Interest on the Obligations accrues from June 15, 2011 and will be paid on August 15, 2011, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption. (See "THE OBLIGATIONS - General" and "THE OBLIGATIONS – Optional Redemption").

**AUTHORITY FOR ISSUANCE**............ The Bonds are authorized and issued pursuant to authority granted by the Constitution and the general laws of the State of Texas, including particularly Chapters 1207 and 1331, Texas Government Code, as amended, Article XIII of the City's Home Rule Charter and separate ordinances passed by the City Council authorizing the issuance of Bonds (the "Bond Ordinances" and together with the Certificate Ordinance, the "Ordinances").

The Certificates are authorized and issued pursuant to the Constitution and the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Article XIII of the City's Home Rule Charter and an ordinance passed by the City Council authorizing the issuance of the Certificates (the "Certificate Ordinance" and, together with the Bond Ordinances, the "Ordinances").

**SECURITY FOR THE OBLIGATIONS** .............................. The Bonds, when issued, will be direct obligations of the City, payable from the proceeds of a continuing and direct and annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

The Certificates, when issued, will be direct obligations of the City, payable from the proceeds of a direct and continuing and annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and from a limited pledge of the surplus revenues of the City's combined water and wastewater system; provided, however, that such pledge of surplus revenues is limited to $1,000.

**OPTIONAL REDEMPTION** .......... The City reserves the right, at its option, to redeem Series 2011A Bonds and the Certificates having stated maturities on and after August 15, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption"). The Series 2011B Bonds are not subject to redemption prior to stated maturity.

**TAX EXEMPTION** .......................... In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, and the Obligations are not "private activity bonds." See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences on corporations.

**USE OF PROCEEDS** ....................... The proceeds from the sale of the Series 2011A Bonds are being used to provide for (i) designing, developing, constructing, improving, extending and expanding streets, thoroughfares, sidewalks, bridges and other public ways of the City; (ii) designing, constructing, improving, renovating, expanding, equipping and furnishing fire fighting facilities; (iii) acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes; (iv) refunding $4,300,000 principal amount of outstanding Commercial Paper Notes (the "Refunded Commercial Paper Notes"); and (v) paying the costs related to the issuance of the Series 2011A Bonds.

The proceeds from the sale of the Series 2011B Bonds are being used to provide for (i) refunding the Refunded Obligations listed on Schedule I hereto for debt service savings; and (ii) paying the costs related to the issuance of the Series 2011B Bonds.

The proceeds from the sale of the Certificates are being used to provide funds for (i) municipal airport facilities and taxiways; and (ii) paying the costs related to the issuance of the Certificates.

**RATINGS** .......................................... The Obligations are rated "Aa1" from Moody's Investors Service ("Moody's"), "AA+" from Standard and Poor's Rating Services, a Standard and Poor's Financial Services LLC business ("S&P") and "AA+" from Fitch Ratings ("Fitch"). The City's presently outstanding tax supported debt and outstanding certificates of obligation has underlying ratings of "Aa1" by Moody's, "AA+" by S&P and "AA+" by Fitch. (see "OTHER RELEVANT INFORMATION – Ratings").

**BOOK-ENTRY-ONLY SYSTEM** .......................................... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

**PAYMENT RECORD** ...................... The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

**NOT QUALIFIED TAX-EXEMPT OBLIGATION** ................ The City has NOT designated the Obligations as "Qualified Tax-Exempt Obligations" for financial institutions.

## CITY OF ARLINGTON

### Elected Officials

| City Council | Length of Service | Term Expires | Occupation |
|---|---|---|---|
| Robert Cluck, M.D.<br>Mayor | 10 years [(1)] | May, 2013 | Physician |
| Mel LeBlanc<br>Council Member | 3 years | May, 2012 | Account Manager |
| Sheri Capehart<br>Council Member | 8 years [(2)] | May, 2012 | Computer Security Analyst, Retired |
| Robert Rivera<br>Council Member | 4 years | May, 2013 | Banker/Vice President |
| Kathryn Wilemon<br>Mayor Pro Tem | 6 years | May, 2013 | Community Volunteer |
| Lana Wolff<br>Council Member | 8 Years | May, 2013 | Community Volunteer |
| Gene Patrick<br>Council Member | 6 years | May, 2013 | Small Business Owner |
| Robert Shepard<br>Council Member | 2 years | May, 2012 | Attorney |
| Jimmy Bennett<br>Council Member | 2 years | May, 2012 | Certified Public Accountant |

(1) Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.
(2) Previously served as Council member from May 1999 to May 2003.

### Appointed Officials

| Name | Position | Years of Employment with City |
|---|---|---|
| Jim Holgersson | City Manager | 5 |
| Gilbert Perales | Deputy City Manager | 4 |
| Trey Yelverton | Deputy City Manager | 17 |
| Bob Byrd | Interim Deputy City Manager [(1)] | 26 |
| April Nixon | Director, Finance and Management Resources | 18 |
| Jay Doegey | City Attorney | 24 |
| Mary Supino | City Secretary | 1 |

(1) Currently serving in an interim capacity until the position is permanently filled.

## ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors ........ Deloitte & Touche LLP, Dallas, Texas

Bond Counsel ........ Vinson & Elkins LLP, Dallas, Texas

Financial Advisor ........ Estrada Hinojosa & Company, Inc., Dallas, Texas

For additional information regarding the City, please contact:

| | |
|---|---|
| Ms. April Nixon<br>Mr. Mike Finley<br>City of Arlington<br>101 W. Abram Street, 3rd Floor<br>Arlington, Texas<br>(817) 459-6100 | Mr. Dave Gordon<br>Ms. Nicole Roberts<br>Estrada Hinojosa & Company, Inc.<br>1717 Main Street, Suite 4700<br>Dallas, Texas<br>(214) 658-1670 |

**USE OF INFORMATION IN OFFICIAL STATEMENT**

*This Official Statement, which includes the cover page, schedules and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell and is not to be used in an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.*

*Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Financial Advisor. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.*

*Neither the City, nor its, Financial Advisor, make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by the Depository Trust Company.*

*The Obligations are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Obligations in accordance with applicable securities law provisions of the jurisdiction in which the Obligations have been registered, qualified, or exempted should not be regarded as a recommendation thereof.*

*The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.*

*THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.*

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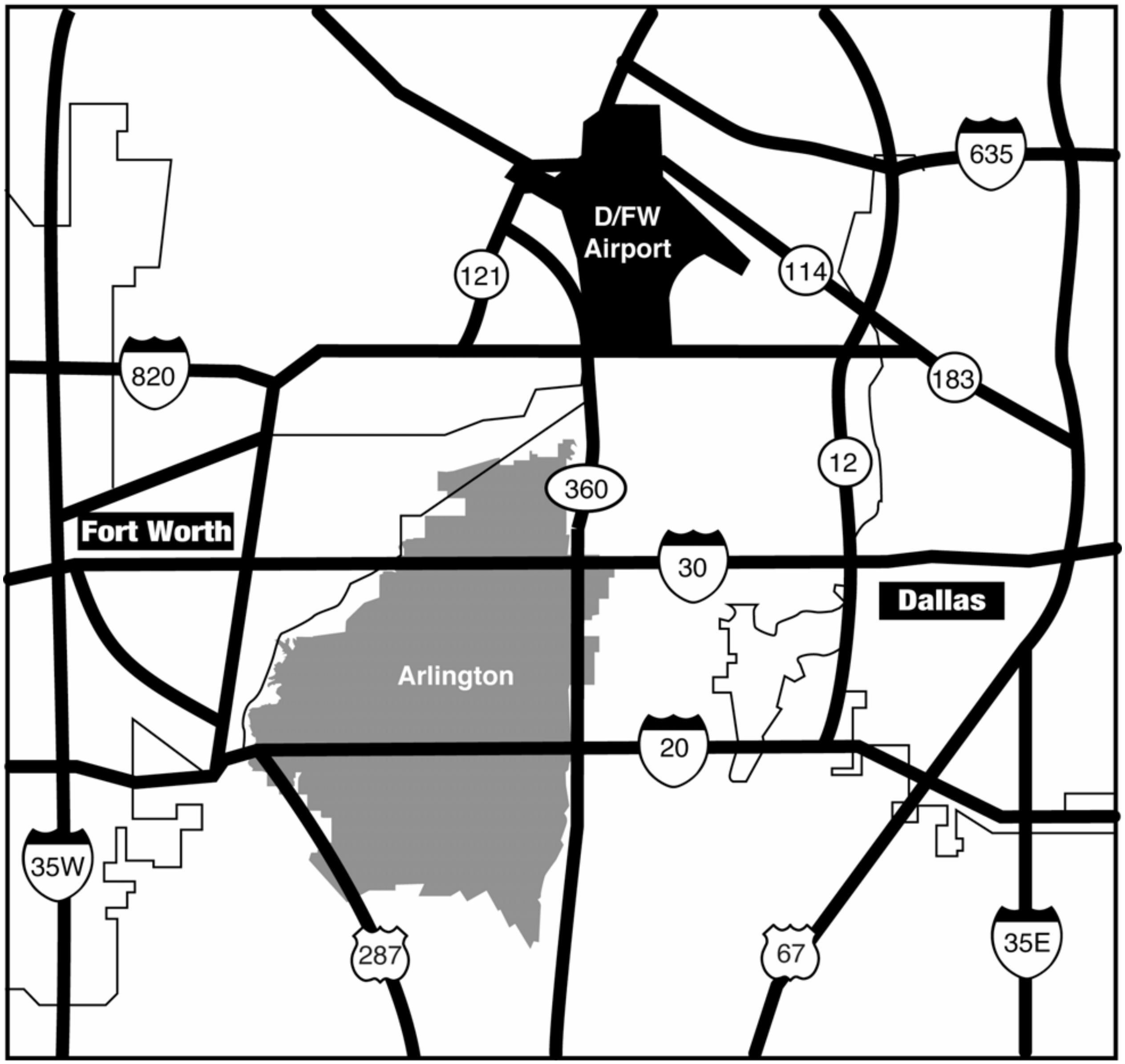
# Dallas/Fort Worth/Arlington Metropolitan Area



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# CITY OF ARLINGTON, TEXAS
## (Tarrant County, Texas)

## $17,805,000
## Permanent Improvement and Refunding Bonds, Series 2011A

## And

## $15,185,000
## Permanent Improvement Refunding Bonds, Series 2011B

## And

## $1,770,000
## Combination Tax and Revenue Certificates of Obligation, Series 2011

### INTRODUCTION

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

**The Issuer**

The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.4 square miles, had a 2010 census population of 365,438. The City operates as a home-rule City under a Council-Manager form of government as established by it Charter. There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its water and wastewater system, its storm water system and its sanitary landfill operation (currently outsourced) as self-supporting enterprise funds.

### THE OBLIGATIONS

**Authority for Issuance**

The Series 2011A Bonds are authorized and issued pursuant to the Constitution and the general laws of the State of Texas, particular Chapters 1207 and 1331, Texas Government Code, as amended, Article XIII of the City's Home Rule Charter and an ordinance passed by the City Council authorizing the issuance of Bonds (the "Series 2011A Bond Ordinance").

The Series 2011B Bonds are authorized and issued pursuant to the Constitution and the general laws of the State of Texas, particular Chapter 1207, Texas Government Code, as amended, Article XIII of the City's Home Rule Charter and an ordinance passed by the City Council authorizing the issuance of Bonds (the "Series 2011B Bond Ordinance") and, together with the "Series 2011A Bond Ordinance, the "Bond Ordinances").

The Certificates are authorized and issued pursuant to the Constitution and the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Article XIII of the City's Home Rule Charter and an ordinance passed by the City Council authorizing the issuance of the Certificates (the "Certificate Ordinance" and, together with the Bond Ordinances, the "Ordinances").

**General**

The $17,805,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2011A (the "Series 2011A Bonds"), will be dated June 15, 2011, and will mature on the dates set forth on the cover of this Official Statement. Interest will be paid on August 15, 2011, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption.

The $15,185,000 City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2011B (the "Series 2011B Bonds" and together with the Series 2011A Bonds, the "Bonds"), will be dated June 15, 2011, and will mature on the dates set forth on page iii of this Official Statement. Interest will be paid on August 15, 2011, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption.

$1,770,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2011 (the "Certificates") will be dated June 15, 2011, and will mature on the dates set forth on page iii of this Official Statement. Interest will be paid on August 15, 2011, and on each February 15 and August 15 thereafter until maturity.

**Security**

The Bonds, when issued, will be direct obligations of the City, payable from the proceeds of a continuing and direct and annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

The Certificates, when issued, will be direct obligations of the City, payable from the proceeds of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and from a limited pledge of the surplus revenues of the City's combined water and wastewater system; provided, however, that such pledge of surplus revenues is limited to $1,000.

**Tax Rate Limitation**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

**Use of Proceeds**

The proceeds from the sale of the Series 2011A Bonds are being used to provide for (i) designing, developing, constructing, improving, extending and expanding streets, thoroughfares, sidewalks, bridges and other public ways of the City; (ii) designing, constructing, improving, renovating, expanding, equipping and furnishing fire fighting facilities; (iii) acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes; (iv) refunding $4,300,000 principal amount of outstanding Commercial Paper Notes (the "Refunded Commercial Paper Notes"); and (v) paying the costs related to the issuance of the Series 2011A Bonds.

The proceeds from the sale of the Series 2011B Bonds are being used to (i) provide for refunding the Refunded Obligations listed on Schedule I hereto; and (ii) paying the costs related to the issuance of the Series 2011B Bonds.

The proceeds from the sale of the Certificates are being used to provide funds for (i) municipal airport facilities and taxiways; and (ii) paying the costs related to the issuance of the Certificates.

**Refunded Obligations**

A portion of the proceeds from the sale of the Series 2011B Bonds will be used to refund the outstanding debt obligations of the City listed on Schedule I hereto (the "Refunded Obligations"). The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective maturity or redemption dates, as applicable, of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Wells Fargo Bank, N.A. (the "Escrow Agent"). The Series 2011B Bond Ordinance provides that from the proceeds of the sale of the Series 2011B Bonds received from the Purchasers, together with other lawfully available funds of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective maturity or redemption dates, as applicable.

By the deposit of the portion of proceeds of the Series 2011B Bonds and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the sufficiency certificate of the City's financial advisor the Refunded Obligations will be outstanding only for the purpose of receiving payments from the deposited bond proceeds and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

**Refunded Commercial Paper Notes**

A portion of the proceeds from the sale of the Series 2011A Bonds will be used to refund $4,300,000 of commercial paper notes maturing on July 8, 2011 (the "Refunded Commercial Paper Notes"). The Refunded Commercial Paper Notes and the interest due thereon are to be paid on their scheduled maturity dates from funds to be deposited with U.S. Bank, N.A., New York, New York (the "Issuing and Paying Agent" for the Refunded Commercial Paper Notes).

The Series 2011A Ordinance provides that from a portion of the proceeds of the sale of the Series 2011A Bonds to the initial Purchaser, together with other legally available funds of the City, if any, the City will deposit with the Issuing and Paying Agent for the Refunded Commercial Paper Notes in a debt service fund the amount necessary to accomplish the discharge and final payment of the Refunded Commercial Paper Notes.

By the deposit of cash with the Issuing and Paying Agent for the Refunded Commercial Paper Notes, the City will have effected the defeasance of the Refunded Commercial Paper Notes pursuant to the terms of Chapter 1207, Texas Government Code, and the ordinance authorizing the issuance of the Refunded Commercial Paper Notes. As a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Commercial Paper Notes and such Refunded Commercial Paper Notes will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefore.

**Sources and Uses**

The estimated sources and uses of funds are as follows:

| | Series 2011A Bonds | Series 2011B Bonds | Certificates |
|---|---|---|---|
| Sources: | | | |
| Par amount of the Obligations | $ 17,805,000.00 | $ 15,185,000.00 | $ 1,770,000.00 |
| Accrued Interest | 34,611.04 | 20,592.53 | 3,456.98 |
| Net Premium | 122,854.50 | 356,847.50 | - |
| Cash Contribution | 377.99 (1) | 316,410.02 | - |
| Total Sources of Funds | $ 17,962,843.53 | $ 15,878,850.05 | $ 1,773,456.98 |
| Uses: | | | |
| Deposit to Construction Fund | $ 13,500,000.00 | $ - | $ 1,735,000.00 |
| Deposit to Escrow Fund for Refunded Bonds | - | 15,746,093.13 | - |
| Deposit for payment of Commercial Paper | 4,300,377.99 (2) | - | - |
| Deposit to Interest and Sinking Fund | 34,611.04 | 20,592.53 | 3,456.98 |
| Underwriters' Discount | - | - | - |
| Cost of Issuance | 127,854.50 | 112,164.39 | 35,000.00 |
| Total Uses of Funds | $ 17,962,843.53 | $ 15,878,850.05 | $ 1,773,456.98 |

(1) The Cash Contribution is the interest due on the Commercial Paper Notes maturing on July 8, 2011. The City received an interest rate of 0.20% on June 22, 2011.

(2) Proceeds of the Bonds in the Principal amount of $4,300,000 will be deposited at closing to refund the Commercial Paper Notes maturing on July 8, 2011. The remaining funds representing the interest due on such Notes will be deposited by the City at closing. See footnote 1.

## Legal Matters

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds and the Certificates are valid and legally binding obligations of the City and based upon examination of such transcript of proceedings, the approving legal opinions of Vinson & Elkins L.L.P., Bond Counsel, with respect to the Bonds and the Certificates being issued in compliance with the provisions of applicable law and the interest on the Bonds and the Certificates being excludable from gross income for purposes of federal income tax. The forms of Bond Counsel's opinions are attached hereto as Appendix C.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "THE OBLIGATIONS" (except under the subcaptions "Sources and Uses", "Payment Record", "Redemption Procedures While Bonds Held by DTC" and "Holders' Remedies" and under the last two sentences of this paragraph), "LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings"), "TAX MATTERS", and the subcaption "Registration and Qualification" under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Obligations and legal matters contained under such captions and subcaption is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent upon the sale and delivery of the Obligations. The legal opinion of Bond Counsel will accompany the Obligations deposited with DTC or will be printed on the definitive Obligations in the event of the discontinuance of the Book-Entry-Only System.

## Payment Record

The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

## Paying Agent/Registrar

The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Fort Worth, Texas. Payments of principal and interest on the Obligations will be payable by Wells Fargo Bank N.A., Forth Worth, Texas (the "Paying Agent/Registrar") to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Obligations, as described herein under "BOOK-ENTRY-ONLY SYSTEM."

Principal of the Obligations will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Obligations will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (See "Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original payment date.

## Amendments

The City may amend the Ordinances without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds or Certificates then outstanding, as applicable, amend, add to, or rescind any of the provisions of the respective Ordinances, except that, without the consent of the registered owners of all of the Bonds or Certificates, as applicable, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal on any installment of interest is due payable, reduce the principal amount or the rate of interest, or in any other way modify the terms of their payment, (2) give any preference to any Bond or Certificate, as applicable, over any other Bond or Certificate or (3) reduce the aggregate principal amount required to be held by owners for consent to any amendment, addition or rescission.

**Optional Redemption**

The City has reserved the right and option to redeem the Series 2011A Bonds and the Certificates scheduled to mature on or after August 15, 2022, prior to their scheduled maturities, in whole or in part, on August 15, 2021, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption in principal amounts of $5,000 or any integral multiple thereof. If less than all of the Obligations are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other method that results in random selection which of the Obligations of such maturities, or portions thereof, shall be redeemed. If any Obligation (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligations (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

The Series 2011B Bonds are non-callable.

**Notice of Redemption**

Not less than 30 days prior to the redemption date, the Paying Agent/Registrar shall send a notice of redemption by United States mail, first class postage prepaid, to each registered owner (the "Owner") of a Bond to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Series 2011A Bonds or Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Series 2011A Bonds or Certificates subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY AN OWNER. NOTICE HAVING BEEN SO GIVEN, THE SERIES 2011A BONDS OR CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BONDS OR PORTION THEREOF, SHALL CEASE TO ACCRUE.

**Redemption Procedures While Bonds Held by DTC**

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only system is used for the Obligations, will send any notice of redemption (with respect to the Bonds), notice of proposed amendment to the Ordinances or other notices with respect to the Obligations only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Obligations called for redemption or any other action premised on any such notice. Redemption of a portion of Obligations by the City will reduce the outstanding principal amount, as applicable, of such Obligations held by DTC.

In such event, DTC may implement, through its Book-Entry-Only system, a redemption of such Obligations held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Obligations from the beneficial owners.

Any such selection of Obligations to be redeemed will not be governed by the Bond Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act a nominees, with respect to the payments on the Obligations or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Obligations selected for redemption (see "Book-Entry-Only System")

**Defeasance**

The City may discharge its obligations to the registered owners of any or all of the Obligations to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either by (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium if any, and all interest to accrue on the Obligations to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Obligations; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Under current state law, after such deposit as described above, the Obligations shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Obligations. Because the Ordinances do not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

**Holders' Remedies**

The Ordinances provide that while any of the Obligations are outstanding there shall be levied, assessed and collected a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, sufficient to pay principal of and interest on the Obligations when due and to pay the expenses necessary in collecting such taxes. If the City defaults in the payment of the principal of or interest on any Bond when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Obligations may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Obligations. Although a registered owner of Obligations could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Obligation, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit of money damages, holders of the Obligations may not be able to bring suit against the City for breach of the Ordinances or the Obligations. The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinances provide that holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinances. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its obligations, but in connection with the issuance of the obligations, the City has not waived sovereign immunity in the proceedings authorizing the Obligations.

The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

**Registration, Transfer and Exchange**

Registration and Payment. The Obligations will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Obligations. Principal and semiannual interest on the Obligations will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Obligations, then the term "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Obligations, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Obligations which are shown as registered Owners on the registration books of the Paying Agent/Registrar.

Future Registration. In the event that DTC is no longer the securities depository for the Obligations and a successor securities depository is not appointed by the City printed certificates for the obligations will be delivered to the owners thereof, and thereafter, the Obligations may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. An Obligation may be assigned by execution of an assignment form on the Obligations or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Obligations in accordance with the provisions of the Ordinances. Such new Obligation or Bonds must be in the denomination of $5,000 for any one maturity or any integral multiple thereof. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar.

Record Date for Interest Payment. The record date ("Record Date") for the interest payment on the Obligations on an interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on the Obligations on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of an Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Successor Paying Agent/Registrar. Provision is made in the Ordinances for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. The Paying Agent/Registrar selected by the City shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Obligations. A successor Paying Agent/Registrar, if any, shall be determined by the City. Upon a change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Obligation or portion thereof, called for redemption prior to maturity, within 45 days prior to the date fixed for redemption.

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, arid clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com and www.dtc.org**.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations are discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Obligations unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct and Indirect Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligation certificates will be printed and delivered.

**The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.**

**Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinances will be given only to DTC. Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Initial Purchaser.

**Effect of Termination of Book-Entry-Only System**

In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed certificates will be issued to the respective holders of the Obligations, as the case may be, and the respective Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "Registration."

## LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Obligations (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Obligations may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

## INVESTMENTS

The City invests its funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City investment policies are subject to change.

**Legal Investments**

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of

Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "Aaa" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**Investment Policies**

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in investments that protect principal, and consistent with the operating requirements of the City, and yield a market rate of return. Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the City Council or chief financial officer of the City.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

**Additional Provisions**

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution, (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt services, and to invest no portion of bond proceeds, reserves and funds held for debt service in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**Table 1 – Current Investments**

As of April 30, 2011, the following percentages of the City's operating funds were invested in the following categories of investments:

| Type of Investment | % Invested |
|---|---|
| Certificates of Deposit | 0.58% |
| Federal Farm Credit Bank | 10.11% |
| Federal Home Loan Bank | 31.95% |
| Federal Home Loan Mortg Corp | 22.82% |
| Federal National Mortg Assoc | 18.08% |
| FDIC Insured | 3.87% |
| Farmer Mac | 1.30% |
| TexPool | 1.50% |
| Texas Daily | 0.03% |
| TexStar | 2.23% |
| Cash | 7.53% |
| **Totals** | **100.00%** |

Source: City of Arlington, Finance and Management Resources Department.

The City's primary investment objective is to provide for the protection of principal with an emphasis on safety and liquidity. The City maintains a comprehensive cash management program that includes prudent investment of its available funds. Investment maturities are targeted to provide available cash for the operating requirements of the City.

As of April 30, 2011, the weighted average maturity of the City's operating portfolio was 528 days and the market value of the operating portfolio was 100.19 percent of its book value. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

**Table 2 - Authorized Permanent Improvement Bonds and Use of Proceeds**

The following table provides information on the outstanding permanent improvement bond authorizations.

**(in thousands)**

| Election Purpose | Authorized Amount | Previously Issued | The Bonds | Outstanding Commercial Paper | Unissued |
|---|---|---|---|---|---|
| 1993 Library Mobile and Portable Facilities | $ 570 | $ - | $ - | $ - | $ 570 |
| 1997 Parks and Recreation | 37,860 | 35,860 | - | 2,000 | - |
| 2003 Erosion Control | 1,900 | - | - | - | 1,900 |
| 2003 Streets | 83,635 | 65,504 | 5,431 | 12,700 (1) | - |
| 2003 Traffic Management | 400 | - | - | - | 400 |
| 2005 Park and Recreation | 13,600 | 11,100 | - | 2,500 | - |
| 2008 Parks and Recreation | 15,500 | 2,091 | 270 | - | 13,139 |
| 2008 Streets | 103,735 | 15,375 | 7,299 | - | 81,061 |
| 2008 Library | 500 | - | - | - | 500 |
| 2008 Fire | 9,090 | 3,470 | 500 | - | 5,120 |
| 2008 Johnson Creek | 12,000 | - | - | - | 12,000 |
| **Total** | **$ 278,790** | **$ 133,400** | **$ 13,500** | **$ 17,200** | **$ 114,690** |

Source: City of Arlington Finance and Management Resources Department.

(1) See "GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM" for a discussion regarding the commercial paper program. The City currently has $17,200,000 in commercial paper outstanding. The Series 2011A Bonds will refund $4,300,000 of previously issued commercial paper notes issued for street improvements out of the 2003 authorization.

## DEBT INFORMATION

Information on the City's indebtedness is presented in the following tables. Included is information on key debt ratios, rapidity of principal retirement and selected debt service schedules.

In addition to the currently outstanding ad valorem tax-supported debt previously issued by the City, the City has also issued certain combination ad valorem tax and revenue supported debt and has incurred contractual and other indebtedness and liabilities payable from ad valorem taxation. Additionally, the City has issued revenue bonds and other indebtedness payable from specific pledged revenues. Various other political subdivisions, which overlap all or a portion of the area of the City are also empowered to incur debt to be paid from revenues raised or to be raised through taxation.

**Table 3 - Key Debt Ratios**

| Fiscal Year | Estimated Population [1] | Estimated Taxable Valuation [2] | Net Tax - Supported Debt Year Ended September 30 [3] | Ratio of Net Tax-Supported Debt | |
|---|---|---|---|---|---|
| | | | | Per Capita | Assessed Valuation |
| 2002 | 346,197 | $ 13,513,378,507 | $ 286,398,601 | $827 | 2.12% |
| 2003 | 351,719 | 14,344,001,305 | 284,539,762 | 809 | 1.98% |
| 2004 | 355,630 | 15,018,724,599 | 283,792,540 | 798 | 1.89% |
| 2005 | 361,300 | 15,599,320,395 | 280,766,546 | 777 | 1.80% |
| 2006 | 362,393 | 16,143,581,172 | 258,483,552 | 713 | 1.60% |
| 2007 | 364,300 | 16,793,424,763 | 243,713,552 | 669 | 1.45% |
| 2008 | 369,150 | 17,591,230,061 | 217,938,552 | 590 | 1.24% |
| 2009 | 370,450 | 18,246,819,671 | 286,848,552 | 774 | 1.57% |
| 2010 | 365,438 | 18,251,104,674 | 297,918,552 | 815 | 1.63% |
| 2011 | 368,854 | 17,179,122,309 | 252,015,922 [4] | 683 | 1.47% |

Source: City Financial and Management Resources Department.

(1) Population estimates are based on percent of occupancy in available residences and census data.

(2) Estimated taxable valuation is obtained from Tarrant County Appraisal District and the City Financial and Management Resources Department.

(3) Does not include self-supporting debt. See "Table 5 – Computation of Self-Supporting Debt. If revenues or other available funds of the City are not sufficient to pay the self-supporting debt, the City will be obligated to assess an ad valorem tax to pay the difference.

(4) FY 2011 excludes 8/15/2011 principal payment on outstanding debt.

*[Remainder of page intentionally left blank]*

## Table 4 – DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements on the City's outstanding debt payable from ad valorem taxation pledged thereto.

| Fiscal Year Ended | Outstanding Debt | | The Series 2011A Bonds | | The Series 2011B Bonds | | Less: Refunded Obligations | | The Certificates | | Less: Self-Supporting Debt Service | Net Tax Supported Debt Service Requirements |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9/30 | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | | |
| 2011 | $ 26,870,000 | $ 14,109,278 | $ - | $ 94,394 | $ - | $ 56,161 | $ - | $ 401,083 | $ - | $ 9,428 | $ 3,982,297 | $ 36,755,881 |
| 2012 | 26,135,000 | 12,876,840 | 895,000 | 566,363 | 4,000,000 | 336,969 | 3,745,000 | 802,166 | 85,000 | 56,569 | 4,075,051 | 36,329,523 |
| 2013 | 25,555,000 | 11,761,886 | 890,000 | 548,463 | 2,565,000 | 256,969 | 2,405,000 | 602,439 | 85,000 | 54,869 | 5,067,292 | 33,642,456 |
| 2014 | 26,400,000 | 10,694,811 | 890,000 | 530,663 | 2,480,000 | 186,431 | 2,400,000 | 475,309 | 85,000 | 53,169 | 5,044,073 | 33,400,692 |
| 2015 | 26,220,000 | 9,563,458 | 890,000 | 512,863 | 1,595,000 | 136,831 | 1,590,000 | 347,719 | 90,000 | 51,469 | 5,030,162 | 32,091,740 |
| 2016 | 24,665,000 | 8,433,329 | 890,000 | 495,063 | 1,490,000 | 104,931 | 1,530,000 | 270,356 | 90,000 | 49,669 | 4,932,399 | 29,485,236 |
| 2017 | 22,815,000 | 7,365,179 | 890,000 | 477,263 | 655,000 | 75,131 | 735,000 | 193,489 | 90,000 | 47,869 | 4,839,396 | 26,647,556 |
| 2018 | 18,965,000 | 6,344,888 | 890,000 | 459,463 | 635,000 | 61,213 | 735,000 | 155,820 | 90,000 | 46,069 | 3,931,330 | 22,669,481 |
| 2019 | 17,715,000 | 5,513,894 | 890,000 | 432,763 | 610,000 | 47,719 | 735,000 | 116,865 | 90,000 | 43,369 | 3,916,022 | 20,574,857 |
| 2020 | 14,995,000 | 4,751,035 | 890,000 | 406,063 | 590,000 | 32,469 | 735,000 | 77,910 | 90,000 | 40,669 | 2,763,281 | 18,219,044 |
| 2021 | 13,385,000 | 4,100,251 | 890,000 | 379,363 | 565,000 | 16,244 | 735,000 | 38,955 | 90,000 | 37,969 | 2,760,894 | 15,928,977 |
| 2022 | 11,975,000 | 3,520,830 | 890,000 | 352,663 | - | - | - | - | 90,000 | 35,269 | 2,706,256 | 14,157,505 |
| 2023 | 10,825,000 | 3,010,458 | 890,000 | 321,513 | - | - | - | - | 90,000 | 32,119 | 2,701,281 | 12,467,808 |
| 2024 | 9,695,000 | 2,534,863 | 890,000 | 285,913 | - | - | - | - | 90,000 | 28,519 | 2,695,181 | 10,829,113 |
| 2025 | 8,560,000 | 2,112,159 | 890,000 | 250,313 | - | - | - | - | 90,000 | 24,919 | 2,696,425 | 9,230,965 |
| 2026 | 8,645,000 | 1,733,495 | 890,000 | 214,713 | - | - | - | - | 90,000 | 21,319 | 2,692,575 | 8,901,951 |
| 2027 | 8,225,000 | 1,347,948 | 890,000 | 179,113 | - | - | - | - | 90,000 | 17,719 | 2,684,475 | 8,065,304 |
| 2028 | 7,230,000 | 979,698 | 890,000 | 143,513 | - | - | - | - | 90,000 | 14,119 | 2,682,125 | 6,665,204 |
| 2029 | 5,035,000 | 675,873 | 890,000 | 107,913 | - | - | - | - | 85,000 | 10,519 | 2,674,875 | 4,129,429 |
| 2030 | 3,210,000 | 471,494 | 890,000 | 72,313 | - | - | - | - | 85,000 | 7,119 | 2,673,775 | 2,062,150 |
| 2031 | 2,250,000 | 326,988 | 890,000 | 36,713 | - | - | - | - | 85,000 | 3,613 | 2,665,600 | 926,713 |
| 2032 | 2,355,000 | 222,925 | - | - | - | - | - | - | - | - | 2,577,925 | - |
| 2033 | 2,465,000 | 114,006 | - | - | - | - | - | - | - | - | 2,579,006 | - |
| | $ 324,190,000 | $ 112,565,582 | $ 17,805,000 | $ 6,867,394 | $ 15,185,000 | $ 1,311,068 | $ 15,345,000 | $ 3,482,111 | $ 1,770,000 | $ 686,347 | $ 78,371,698 | $ 383,181,581 |

**Table 5 - Computation of Self-Supporting Debt** [1]

| | | |
|---|---|---|
| **Hotel Occupancy Tax Revenue** [2] | | |
| Gross Hotel Occupancy Tax Revenues for Fiscal Year ended 9-30-10 | $ | 5,220,210 |
| Debt Service Requirements for Hotel Occupancy Tax Revenue Debt FY 2011 | | 1,358,673 |
| Percent of Tax Increment Self-Supporting | | 100% |
| | | |
| **Water and Wastewater System (WWS) Revenues** | | |
| Revenue Available for Debt Service from WWS Revenues, FY end 9-30-09 | $ | 47,861,000 |
| Less: Revenue Bond requirements, FY 2011 | | 14,017,078 |
| Balance Available for Other Purposes | | 33,843,922 |
| Debt Service Requirements for Water for Portions of CO 2001 A and B, FY 2011 | | 75,173 |
| Percentage of Water and Wastewater System CO Debt, Self-Supporting | | 100% |
| | | |
| **Tax Incremental Reinvestment Zone 5 (TIRZ 5)** [3] | | |
| Beginning Fund Balance TIRZ 5 Core, 9-30-10 | $ | 104,704 |
| Beginning Fund Balance TIRZ 5 Surrounding, 9-30-10 | | 400,898 |
| Tax Revenue TIRZ 5 Core, FY 2011 | | 205,222 |
| Tax Revenue TIRZ 5 Surrounding, FY 2011 | | 274,531 |
| Total Balance Available for Debt Service FY 2011 | | 985,354 |
| Debt Service Requirements for TIRZ 5, FY2011 | | 1,567,781 |
| Percentage of TIRZ 5 Obligations Self-Supporting | | 63% |
| | | |
| **Tax Increment Reinvestment Zone 4 (TIRZ 4)** | | |
| Beginning Fund Balance TIRZ 4, 9/30/10 | | 5,910,036 |
| Tax Revenue revenue TIRZ 4, FY 2011 | | 1,308,389 |
| Total Balance Available for Debt Service FY2011 | | 7,218,425 |
| Debt Service Requirement for TIRZ 4, FY 2011 | | 971,242 |
| Percentage of TIRZ 4 Obligations Self-Supporting | | 100% |
| | | |
| Total Debt Service Requirements, FY 2011 | $ | 3,972,869 |

[1] If funds are not sufficient for any of the below debt service payments, the City will be obligated to assess an ad valorem tax to pay the difference.

[2] Historically the City has paid for a portion of its outstanding Combination Tax and Revenue Certificates of Obligation, Series 1998 and Refunding Bonds, Series 2005 from surplus Hotel Occupancy Tax Revenues. There is no guarantee that the discretionary payments from surplus revenues of the Hotel Occupancy Tax Collections will be made in the future or that such revenue will be sufficient to pay such allocated debt service.

[3] The interest and sinking fund tax rate was established with the expectation that the shortfall would be funded from funds on deposit in the Debt Service Fund.

**Table 6 - Tax Adequacy** [1]

The following analysis assumes 98 percent collection of ad valorem taxes levied against the City's fiscal year 2011 Net Assessed Valuation.

| | | |
|---|---|---|
| Average Annual Requirement (2011 - 2031) …………….………… | $ | 18,246,742 |
| A tax rate of $0.1084 per $100 assessed valuation produces ………. | | 18,246,742 |
| Average Annual Requirement (2011 - 2021) ………………………… | | 27,795,040 |
| A tax rate of $0.1651 per $100 assessed valuation produces ………. | | 27,795,040 |
| Maximinum Annual Requirement (2011) …………………………… | | 36,755,881 |
| A tax rate of $0.2183 per $100 assessed valuation produces ………. | | 36,755,881 |

[1] Amounts do not include the outstanding principal amount of commercial paper or the Refunded Obligations. Includes the Obligations.

## GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM

The City Council authorized the issuance of its General Obligation Commercial Paper Notes, Series A (the "Commercial Paper Notes") on May 24, 2005 in an aggregate principal amount not to exceed $30 million for voter approved capital projects (see "Table 2 - Authorized Permanent Improvement Bonds and Use of Proceeds" for a description of the approved capital projects for the Commercial Paper Notes). As of the date and date of this official statement, the City has $17,200,000 in Commercial Paper Notes outstanding (see "Table 2 – Authorized Permanent Improvement Bonds and Use of Proceeds"). Approximately $12,900,000 will remain after the issuance of the Bonds. The liquidity provider for the principal portion of the Commercial Paper Notes is Bank of America, N.A..

The Commercial Paper Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified terms of the Commercial Paper Notes, but not to exceed 15%. The principal on the Commercial Paper Notes is payable from ad valorem taxes and other funds that may be provided under the Credit Agreement by and between the City and Bank of America, N.A. The principal amount of the Credit Agreement will be reduced to $25 million on June 22, 2011. The interest on the Commercial Paper Notes is payable from the receipts of ad valorem taxes.

## ESTIMATED OVERLAPPING DEBT

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities within which the City is located or with which taxable property is jointly levied against, and the estimated percentages and amounts of such indebtedness attributable to taxable property within the City. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance purposes. Furthermore, certain of the entities listed may have issued additional obligations payable from ad valorem taxes since the date stated in the table, and such entities may have programs requiring the issuance of substantial additional amounts of indebtedness, the amount of which cannot be determined.

### Overlapping Debt

| Taxing Jurisdiction | Total Tax Supported Debt as of 2/25/2011 (1) | Percent | Amount Overlapping |
|---|---|---|---|
| Arlington ISD | $417,751,345 | 77.94% | $325,595,398 |
| Hurst-Euless-Bedford ISD | 193,055,026 | 1.06% | 2,046,383 |
| Kennedale ISD | 49,245,025 | 51.42% | 25,321,792 |
| Mansfield ISD | 693,978,345 | 29.39% | 203,960,236 |
| Tarrant Co | 353,941,048 | 13.63% | 48,242,165 |
| Tarrant Co College Dist | 36,495,000 | 13.63% | 4,974,269 |
| Tarrant Co Hosp Dist | 28,020,000 | 13.62% | 3,815,400 |
| Total Net Overlapping Debt | | | $613,955,643 |
| Arlington, City of (2) | | | $252,015,922 |
| Total Direct and Overlapping Debt | | | $865,971,565 |
| Total Direct and Overlapping Debt % of AV | | | 4.74% |
| Total Direct and Overlapping Debt % of Capita | | | $2,370 |

(1) Source: Municipal Advisory Council, net debt outstanding per representative of each jurisdiction.
(2) Includes the Obligations and excludes 8/15/2011 principal payment, the Refunded Obligations, outstanding commercial paper and self-supporting debt.

## TAX-SUPPORTED CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program ("CIP") provides for multi-year improvements to the City's public facilities along with the means of financing these improvements. The City's Capital Improvement Program is prepared annually and primarily driven by recent bond election results. The City's most recent permanent improvement bond election, totaling $140,825,000, was held on November 4, 2008 with all propositions passing. The propositions on the ballot included $115,735,000 for Public Works; $15,500,000 for Parks; $9,090,000 for Fire; and $500,000 for Libraries. Combined with the authorized but unissued bonds from prior elections, the City has $112,690,000 in unissued permanent improvement bonding authority.

The approved CIP is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for those needs. The City's tax-supported CIP for fiscal year 2012 is budgeted at $30,615,000. The projects include funds for fire improvements, parks and recreation and for public works and transportation.

## FINANCIAL INFORMATION

### Basis of Accounting and Accounting Structure

The accounting records of the City are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Funds, Capital Projects Funds and Trust and Agency Funds and on the accrual basis of accounting for the Enterprise Funds, and the Internal Service Funds. In general, under the modified accrual basis of accounting, revenues are recorded as received in cash except for material revenues considered to be both measurable and available to finance current year appropriations, which are recognized as revenue when earned. Expenditures are recorded in the period in which liabilities are incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursements of cash.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2009. The City was awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2003 and 2005 to 2009. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2009.

## ACCOUNTING STANDARDS

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's governmental funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the originally adopted and final General Fund budget with actual results

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Agency funds, however, report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, which are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. The City has agreements with various entities in which a portion of the sales tax is rebated. The sales tax revenue is reported net of the rebate. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

Business-type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position(sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.

b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

c. Stadium Venue Fund, a capital project fund, accounts for the planning, acquisition, establishment, development, and construction of the Dallas Cowboys Complex Development Project. Funds are provided primarily through bond sales and interest earnings.

d. Street Capital Projects Fund accounts for the purchase of rights of way and land, construction of streets and related facilities, and to account for various other projects related to street construction. Funds are provided primarily through bond sales, interest earnings, and impact fees.

e. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

<u>2. Enterprise Funds:</u>

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The City's Enterprise Funds are the Water and Sewer Fund and the Storm Water Utility Fund. The Water and Sewer Fund accounts for the administration, operation and maintenance of the water and sewer utility system, and the billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund. The City's solid waste function is contracted out. The billings for this function are done by the City as a conduit for the contractor. The fee for this service is accounted for in the Water fund, while revenues from landfill fees are accounted for in the General Fund. The Storm Water Utility Fund accounts for the design, construction and maintenance of the City's storm water drainage systems. This Fund was previously set up as a capital project fund and was converted to an enterprise fund in Fiscal Year 2009.

<u>3. Other Fund Types:</u>

The City additionally reports for the following Fund types:

a. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. These services include printing, mailing and duplicating; fleet services; self insurance; technology services; workers' compensation insurance: and group health Insurance.

b. Agency Funds are used to account for assets held by the City in an agency capacity for payroll related benefits, escheat property for the state, and other assets held for individuals, local law enforcement agencies and developers.

c. Pension Trust Funds are used to account for the accumulation of resources to be used for the retirement and disability benefit payments to qualified City employees and for thrift savings plans for City employees.

## GENERAL FUND REVENUES AND EXPENDITURES

The General Fund is the primary operating Fund maintained by the City to account for revenue derived from City-wide ad valorem taxes, other local taxes, licenses, fees, permits, and certain other miscellaneous revenues. General Fund expenditures are the cost of general City government. The following is a discussion of the General Fund revenue structure and major classifications of General Fund expenditures.

*[Remainder of page intentionally left blank]*

## CERTAIN OPERATIONS OF THE GENERAL FUND

The General Fund of the City is that accounting entity which is used to account for all transactions which are not accounted for in another fund and which, specifically, receives all revenues and records all expenditures relating to the ordinary operations of general government. Other major funds of the City are the Special Revenue Funds, the Capital Project Funds, the Enterprise Funds, and the Debt Service Funds.

Summaries for fiscal years 2006 to 2010 have been compiled from the audited financial statements included in the Comprehensive Annual Financial Reports of the City. These unaudited summaries should be read in conjunction with their related audited financial statements and notes. For the fiscal year ended September 30, 2010, the General Fund had revenues greater than expenditures and transfers by $3,209,000 or 1.68% percent of General Fund revenues, leaving a General Fund balance at September 30, 2010, of $66,567,000. The following table presents a comparison of the City's General Fund balance for fiscal years 2005 to 2010.

**Table 7 - General Fund Revenue and Expenditure History**
**(amounts in thousands)**

| | Fiscal Years Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| **Beginning Fund Balance** | $58,281 | $56,189 | $60,346 | $66,114 | $52,057 | $25,317 |
| **Revenues** | | | | | | |
| Taxes | 127,350 | 128,231 | 125,301 | 122,230 | 112,846 | 104,208 |
| Franchise Fees | 25,769 | 25,038 | 25,994 | 29,145 | 31,140 | 28,928 |
| Service Charges | 5,091 | 4,371 | 4,386 | 5,668 | 5,198 | 5,781 |
| Interest | 956 | 1,854 | 3,299 | 4,549 | 3,365 | 1,501 |
| All Other | 30,878 | 27,850 | 23,373 | 19,008 | 26,856 | 16,742 |
| **Total Revenues** | $ 190,044 | $ 187,344 | $ 182,353 | $ 180,600 | $ 179,405 | $ 157,160 |
| **Expenditures** | | | | | | |
| **Total Expenditures** | $ 186,835 | $ 191,612 | $ 190,713 | $ 179,882 | $ 168,327 | $ 164,724 |
| Net Expenditures Over (Under) Expenditures | 3,209 | (4,268) | (8,360) | 718 | 11,078 | (7,564) |
| Other Financing Sources | | | | | | |
| Issuance of Capital Leases | | | | | | 1,626 |
| Operating Transfers | 5,077 | 6,360 | 4,203 | (6,486) | 2,979 | 32,678 |
| **Ending Fund Balance** | $66,567 | $58,281 | $56,189 | $60,346 | $66,114 | $52,057 |
| General Fund Balance as a Percent of General Fund Expenditures | 35.63% | 30.42% | 29.46% | 33.55% | 39.28% | 31.60% |

Source: Fiscal Year 2011 Budget and Fiscal Year 2010 Audited Financial Statements.

*[Remainder of page intentionally left blank]*

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2011, as reported in the adopted Budget.

**Table 8 - DEBT SERVICE FUND BUDGET**
**Fiscal Year 2011**

| | |
|---|---|
| Beginning Balance | $ 5,765,529 |
| Total Revenue | 35,795,380 |
| Transfers In (1) | 4,810,674 |
| Total Available for Debt Service | 46,371,583 |
| Debt Service Expenditures | (41,486,054) |
| Estimated Ending Fund Balance | $ 4,885,529 |

Source: Fiscal Year 2011 Budget and Fiscal Year 2010 Audited Financial Statements.

1) Includes transfers to the Debt Service Fund from the Convention and Event Services Fund, Park Performance Fund, TIRZ #4 Fund, TIRZ#5 Fund and Water and Wastewater Fund.

## TAX DATA

### General

A major source of operational revenue and funds for tax-supported debt service payments is the receipts from ad valorem taxation. The following is a recapitulation of (1) the authority for taxation, including methodology, limitations, remedies and procedures; (2) historical analysis of collection and trends of tax receipts and provisions for delinquencies; and (3) an analysis of (a) the base, (b) the principal taxpayers, and (c) other ad valorem taxation that may compete with the City's tax collections. Additionally, sales tax, hotel occupancy tax and short term motor vehicle rental tax authority and collections are described.

### Authority for Ad Valorem Taxation

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 in population, limits the ad valorem tax rate to $2.50 per $100 assessed valuation for all city purposes and makes no allocation of such tax rate between debt service requirements and expenses of general city government. The City operates under a Home Rule Charter that adopts these provisions of the Constitution. For fiscal year 2011, the Council has levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2150 was allocated to pay debt service on outstanding tax-supported Bonds and notes. See "Table 9 - Tax Rate Distribution and Collection Ratios."

### Effective Tax Rate and Rollback Tax Rate

Before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, the City Council must adopt a tax rate per $100 taxable value for the current year. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's total maintenance and operations tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional sales tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**Property Subject to Taxation**

All real property and tangible personal property in the City is subject to taxation except for certain mandated and discretionary exemptions granted pursuant to State law and Title I of the Texas Tax Code (the "Property Tax Code"). The Property Tax Code mandates exemption of public property, property exempt by federal law from ad valorem taxes, household goods, personal effects of an individual, and certain property of religious and charitable organizations, schools, and disabled veterans. Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. The Council currently exempts up to $60,000 of the appraised value of such residential homesteads. The FY 2011 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $884,556,069.

Article VIII, Section 1-b of the Texas Constitution provides the City with the authority to exempt a percentage of the market value of residential homesteads. The percentage may not exceed 20 percent in FY 2011 and each subsequent year. Where an ad valorem tax has previously been pledged for the payment of debt, the Council may continue to levy and collect the tax against the value of the exempt homesteads until the debt is discharged if the cessation of the levy would impair the obligation. The Council granted 20 percent residential homestead exemptions on the FY 2011 tax roll, which totaled $1,821,175,615 or 10.7 percent of the FY 2011 taxable assessed valuation. In addition, $69,236,796 of value was reduced from the FY 2011 tax rolls in accordance with State law to reflect value of agricultural land based upon production rather than market value.

Article VIII of the Texas Constitution provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. The City did opt out. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Section 23.83 of the Property Tax Code allows taxes to be deferred on property that is restricted to scenic use. Deferrals were first claimed under this section in 1990. The FY 2011 tax roll reveals a value loss of $9,410,286 due to scenic deferrals.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. Notwithstanding the foregoing, a disabled veteran who receives from the United States department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

With the passage of Proposition 5 on November 7, 1989, the State Constitution was amended to allow for the taxation of temporarily located inventory on a local option basis. To continue taxation of this so called "freeport" property, the governing body of a taxing entity, such as the Council, was required to take action prior to January 1, 1990. The Council adopted an ordinance, which allowed for the continued taxation of "freeport" property for 1990 and subsequent years. On January 13, 1998, the Council repealed the aforementioned ordinance, which has the effect of exempting "freeport" property from taxation effective January 1, 1999. This exemption is irrevocable under current State law. The amount of "freeport" assessed value subject to exemption for the FY 2011 tax roll is $330,447,914.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public funds for economic development purposes; however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City can make no representations or predictions concerning the impact such tax limitation would have on the City's tax rate, financial condition or ability to make debt service payments

Chapter 312 of the Texas Tax Code allows the Council to designate reinvestment zones and to enter into tax abatement agreements with property owners within these zones. The abatement value loss on the FY 2011 tax roll is $52,920,270.

**Tax Increment Financing Districts**

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units may agree to contribute all of part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. The difference between any increase in the assessed valuation of taxable real property in the TIF in excess of the base value of taxable real property in the TIF is known as the "Incremental Value," and during the existence of the TIFs, taxes levied by the City against the Incremental Value in the TIFs are restricted to paying project and financing costs within the TIFs and are not available for the payment of other obligations of the City, except for obligations that are expressly secured from the Incremental Value within a particular zone.

The City Council adopted an ordinance on November 3, 1998, establishing a tax increment financing district (the "TIF District #1") encompassing approximately 533 acres in the City's downtown area. TIF District #1 took effect on January 1, 1999 and will terminate on December 31, 2018. The City Council can terminate the TIF District at an earlier date by subsequent ordinance.

The City Council adopted an ordinance on September 27, 2005, establishing a tax increment financing district (the "TIF District #2") encompassing approximately 2,000 acres in the northeast quadrant of the City. TIF District #2 took effect on January 1, 2006 and was dissolved by the City Council on March 27, 2007. TIF District #2 was replaced by TIF District #6.

The City Council adopted an ordinance on November 8, 2005, establishing a tax increment financing district (the "TIF District #4") encompassing approximately 320 acres in the City's south central area. TIF District #4 took effect on January 1, 2005 and will terminate on December 31, 2025.

The City Council adopted an ordinance on December 19, 2006, establishing a tax increment financing district (the TIF District #5 Entertainment District") encompassing 2,187 acres generally defined by Lamar Boulevard to the north, the Union Pacific Railroad to the south, State Highway 360 to the east and Collins Street to the west. TIF District #5 Entertainment District took effect on January 1, 2007 and will terminate on December 31, 2036.

The City Council adopted an ordinance on December 18, 2007, establishing a tax increment financing district (the "TIF District #6") encompassing approximately 2,000 acres in the northeast quadrant of the City. The TIF District took effect on January 1, 2007 and will terminate on December 31, 2036.

**Appraisal of Taxable Property**

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumes the responsibility of appraising all taxable property and preparing and certifying the tax rolls for each unit of government that levies ad valorem tax in that county. The appraisal of property within the City is the responsibility of the Tarrant Appraisal District. Under the 1981 amendment to the Property Tax Code, the City is now entitled to vote, in the proportion to its taxes levied in Tarrant County, in selecting the governing board of appraisal district. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. A city, or other taxing unit, may challenge the appraisals assigned to property within its jurisdiction under certain limited circumstances. These entities can also sue the appraisal district to compel it to comply with the Property Tax Code.

The City's FY 2011 appraisal roll was prepared and certified by the Tarrant Appraisal District's Chief Appraiser and Appraisal Review Board. Such appraisal rolls are used by the City in establishing its tax rate. The City Council is responsible for setting the rate, levying and collecting the taxes. All taxable property in the City is presently valued on the City's tax roll at 100 percent of its estimated market value as of January 1. The rate of taxation was determined and set by the Council based upon the January 1 valuation. Taxes are due of the subject year (or when billed) and become delinquent after January 31 of the following year, except for a split payment option. Under the split payment option, adopted by the City beginning with fiscal year 2003, taxpayers can make one-half payment prior to December 1, and the final one-half payment prior to July 1 of the following year without penalty or interest. Since October 1, 2002 ad valorem taxes for the City have been collected by the Tarrant County Tax Assessor-Collector. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

*[Remainder of page intentionally left blank]*

**City's Rights in the Event of Tax Delinquencies**

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

| Month | Cumulative Penalty | Cumulative Interest | Total |
|---|---|---|---|
| February | 6% | 1% | 7% |
| March | 7 | 2 | 9 |
| April | 8 | 3 | 11 |
| May | 9 | 4 | 13 |
| June | 10 | 5 | 15 |
| July | 12 | 6 | 18 |

After July, penalty remains at 12%, and interest increases at the rate of 1% each month or portion of the month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**Tax Limitation Election**

A City election was approved on February 5, 2005, which adopted a homestead property tax limitation for disabled individuals and individuals 65 years of age or older. This limitation on the residential homesteads of qualifying property owners is defined under the Texas Property Tax Code, section 11.261. The limitation cannot be repealed by any action of the City or through an election of the City under current state law. The homestead property tax ceiling limits the amount of taxes paid to the City based on the taxes paid in the first year that the property qualifies for the disabled exemption or the 65 years of age or older exemption. The limitation is a dollar amount and does not increase unless improvements (other than repairs or improvements required to comply with governmental requirements) are made to the residential homestead. For those property owners who qualified in 2005 for either exemption, the tax ceiling was set based on the taxes levied in September 2005 by the City. The tax ceiling carries forward to a surviving spouse age 55 or older of an individual who is 65 years of age or older.

The City has 89,882 residential homestead properties in FY 2010 and 15,842 of these properties received an exemption for a disabled individual or individual 65 years of age or older.

*[Remainder of page intentionally left blank]*

**Tax Revenue**

The following table shows the City's principal tax revenues by source for each of the last five fiscal years. Growth in total tax revenues has averaged 4.6 percent per year over the last five years.

**Table 9 – Tax Rate Distribution and Collection Ratios**

| | | Tax Rate | | | | % Collections [2] | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Estimated Net Taxable Valuation [1] | General Fund | Debt Service Fund | Total Tax Rate | Tax Levy | Current Year | Prior Years |
| 2007 | $ 16,793,424,763 | $ 0.4468 | $ 0.2012 | $ 0.6480 | $ 108,821,392 | 97.54% | 99.82% |
| 2008 | 17,591,230,061 | 0.4467 | 0.2013 | 0.6480 | 113,991,171 | 97.73 | 99.68 |
| 2009 | 18,246,820,000 | 0.4467 | 0.2013 | 0.6480 | 118,239,394 | 98.40 | 100.17 |
| 2010 | 18,267,158,000 | 0.4467 | 0.2013 | 0.6480 | 118,371,184 | 97.87 | 99.39 |
| 2011 | 17,179,122,309 | 0.4330 | 0.2150 | 0.6480 | 111,320,648 | 93.51 [3] | 94.31 [3] |

Source: City Financial and Management Resources Department.

(1) Net Taxable Valuation is the certified roll as of September of each year including minimum estimated value of property under protest. 2010 and 2011 values provided by City Financial and Management Resources Department.

(2) Prior year's collections include current year collections, prior year delinquent collections and all penalty and interest collections.

(3) Collections as of March 31, 2011.

**Table 10 - Tax Base Distribution**
**Fiscal Years 2006 to 2010**

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Residential | 59.8% | 60.6% | 62.4% | 62.3% | 62.1% |
| Commercial, Industrial, Retail | 38.1% | 37.5% | 35.7% | 35.7% | 35.9% |
| Undeveloped | 1.8% | 1.9% | 1.9% | 2.0% | 2.0% |

Source: City Financial and Management Resources Department.

**Table 11 - Top Ten Taxpayers** [1]

| Employer | Type of Business | FY 2010 |
|---|---|---|
| General Motors Corporation | Automobile Assembly | $ 211,846,231 |
| Parks at Arlington LP | Real Estate Holdings | 150,541,475 |
| Oncor Electric Delivery Co. | Public Utility | 142,416,467 |
| Arlington Highlands Ltd | Retail | 130,885,400 |
| Southwestern Bell Telephone Co. | Public Utility | 73,409,308 |
| Texas Flags/Six Flags Over Texas | Amusement Park | 66,077,444 |
| Wal-Mart Real Estate | Retail | 58,486,313 |
| USMD Surgical Hospital | Healthcare | 58,177,021 |
| Quicksilver Resources Inc. | Natural Gas Producer | 51,016,783 |
| Lincoln Square Ltd | Real Estate Holdings | 39,783,322 |
| **Total** | | **$ 982,639,764** |
| Above ten taxpayers as % of total tax rolls | | 5.38% |
| Total tax roll | | $ 18,251,104,674 |

(1) Source: Fiscal Year 2010 Audited Financial Statements.

**Municipal Sales Tax**

The City has adopted the provisions of Sections 321.101 and 321.103 of the Texas Tax Code, which grants the City the power to impose and levy a one percent sales tax for general purposes of the City. On September 14, 2002, an election to adopt an additional one-quarter cent city sales and use tax for municipal street maintenance as permitted under Chapter 327 of the Texas Tax Code was held and the additional one-quarter cent sales and use tax was approved. The additional one-quarter cent sales and use tax became effective on January 1, 2003. On November 2, 2004, an election to adopt an additional one-half cent sales and use tax for the Dallas Cowboys Complex Development Project (the "Cowboys Project") as permitted by Chapter 334 of the Texas Local Government Code was held and the additional one-half cent sales and use tax was approved. The additional one-half cent sales and use tax became effective on April 1, 2005. The Comptroller of Public Accounts of the State of Texas, after the deduction of a two percent service fee, currently remits monthly the City's portion of sales tax collections to the City. The statute provides the Comptroller must remit at least twice annually. Revenue from sales tax levied for general purposes of the City may not be pledged, under the applicable statutes, to the payment of debt service of the City's debt obligations.

**Table 12 – Municipal Sales Tax History**

| Fiscal Year | Sales Tax Receipts (1) | Ad Valorem Tax Levy | Sales Tax as a % of Tax Levy | Population Estimate | Per Capita Sales Tax Collection |
|---|---|---|---|---|---|
| 2001 | $ 44,436,164 | $ 78,838,868 | 56% | 339,215 | $ 131 |
| 2002 | 41,172,479 | 85,674,820 | 48% | 346,197 | 119 |
| 2003 | 38,695,033 | 90,940,968 | 43% | 351,719 | 110 |
| 2004 | 39,663,609 | 97,321,335 | 41% | 355,630 | 112 |
| 2005 | 40,072,031 | 101,083,596 | 40% | 361,300 | 111 |
| 2006 | 43,228,000 | 104,610,406 | 41% | 362,393 | 119 |
| 2007 | 46,368,418 | 108,821,392 | 43% | 364,300 | 127 |
| 2008 | 46,008,765 | 113,784,966 | 40% | 369,150 | 125 |
| 2009 | 45,873,000 | 118,435,518 | 39% | 370,450 | 124 |
| 2010 | 46,066,360 (2) | 118,267,158 | 39% | 365,438 | 126 |

(1) Receipts reflect the City's 1% sales tax.
(2) Source: FY 2011 Proposed Budget and Business Plan

**PENSION FUND**

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 837 administered by TMRS, an agent, multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or accessing the CAFR on line at www.tmrs.com.

Benefits depend upon a sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provides on an annually repeating basis annuity increases for retirees equal to 70% of the change in the consumer price index (CPI). City Council has approved reducing this to 50% effective October 1, 2010.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City.

**Funding Policy**

Under the state law governing TMRS, the actuary annually determines the City contribution rate on a calendar year basis using the Projected Unit Credit actuarial method. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 15.51% of covered payroll for the months in calendar year 2009, and 16.76% for the months in calendar year 2010. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation for the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective of rates beginning January 1, 2010). If a change in plan provisions is elected by the City, this rate can change.

**Changes in Actuarial and Amortization Methods**

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as the valuation date, but does not project the potential future liability of provisions adopted by the City. Two thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, The TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually reporting basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than .5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. The statutes further provide that plan members may request up to a forty year amortization period. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded rations; however, the funded ration should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

**Funding State and Funding Process**

As of December 31, 2009, the most recent actuarial valuation date, the plan was 60.2 percent funded. The actuarial accrued liability for benefits was $621,176,922, and the actuarial value of assets was $373,896,491, resulting in an unfunded actuarial accrued liability (UAAL) of $247,280,431. The covered payroll (annual payroll of active employees covered by the plan) was $147,276,384, and the ratio of the UAAL to the covered payroll was 167.9%.

**Actuarial Methods and Assumptions**

| | |
|---|---|
| Actuarial Valuation Date: | December 31, 2009 |
| Actuarial Cost Method: | Projected Unit Credit |
| Amortization Method: | Level Percent of Payroll |
| Remaining Amortization Period: | 28 Years – Closed Period |
| Asset Valuation Method: | Amortized Cost |
| Investment Rate of Return: | 7.5% |
| Projected Salary Increases: | Varies by age and service |
| Payroll growth: | 3% |
| Withdrawal rates (low, mid or high) for Male/Female | Mid-High/Mid-High |
| Inflation Rate: | 3%: |
| Cost-of-Living Adjustments | 2.1% |

## Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $30,852,449 was $6,913,234 higher than the City's contributions.

| | |
|---|---|
| Annual required contribution (ARC) | $ 30,852,449 |
| Interest | 510,144 |
| Adjustment to the ARC | (445,000) |
| Annual pension cost (expense) | 30,917,593 |
| Contributions made | 23,939,215 |
| Increase (Decrease) in net pension obligation | 6,978,378 |
| Net pension obligation beginning of the year | 7,287,773 |
| Net pension obligation end of the year | $ 14,266,151 |

The following table discloses five-year historical trend information relating to the TMRS plan.

| Fiscal Year Ending 9/30 | Annual Pension Cost (APC) | Percentage of APC Contribution | Net Pension Obligation |
|---|---|---|---|
| 2006 | $ 14,512,396 | 100% | - |
| 2007 | 15,164,348 | 100% | - |
| 2008 | 19,486,546 | 100% | - |
| 2009 | 29,582,321 | 75% | 7,287,773 |
| 2010 | 30,852,449 | 78% | 14,266,151 |

# OTHER POST-EMPLOYMENT BENEFITS

## Retiree Health Insurance

*Plan Description.* The City of Arlington administers a single-employer defined benefit health care plan. The plan provides postretirement health care benefits to eligible retirees and their spouses.

An eligible employee can continue their health care coverage in retirement if their age plus service is at least 70 with a minimum age requirement of 50 years and a minimum of ten years of service with the City. Employees hired after December 31, 2005 are not eligible for postretirement health care benefits. As of January 1, 2010, 612 retirees met those eligibility requirements. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (dollar amounts in thousands):

| | |
|---|---|
| Annual required contribution (ARC) | $ 8,583 |
| Interest on Net OPEB Obligation | 510 |
| Adjustment to the ARC | (695) |
| Annual pension cost (expense) | 8,398 |
| Contributions made | 2,670 |
| Increase (Decrease) in OPEB obligation | 5,728 |
| Net OPEB obligation beginning of the year | 11,328 |
| Net OPEB obligation end of the year | $ 17,056 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 are as follows (dollar amounts in thousands).

| Fiscal Year Ending 9/30 | OPEB Cost | Annual OPEB Contribution | OPEB Obligation |
|---|---|---|---|
| 2010 | 8,398 | 31.80% | 17,056 |

**Disability Income Plan**

*Plan Description.* DIP is a single-employer defined benefit disability income plan that covers the employees of the City. The plan originally provided in-service death benefits and long term disability benefits commencing upon disablement. The plan was amended to eliminate the in-service death benefit and to start disability payments at age 65. The plan contemplates that long term disability benefits will be provided through a separate LTD insurance contract prior to age 65. The retired life liability for current disabled employees (many of whom are under age 65) is retained under the plan.

Membership of the plan consisted of the following at July 1, 2010, the date of the latest actuarial valuation.

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 29 |
| Active plan members | 2,287 |
| Total | 2,316 |

**Supplemental Death Benefits Plan**

*Plan Description.* The City of Arlington contributes to the Supplemental Death Benefit Fund (SDBF), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS). This is a separate trust administered by the TMRS Board of Trustees. SDBF provides a death benefit of $7,500 for retirees. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City made the following agreement for the benefit of the owners and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rule Making Board (the "MSRB"). This information will be available free of charge via the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

**Annual Reports**

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 12 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to the MSRB, and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year for the preceeding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

**Material Event Notices**

The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Obligations, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City(1); (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

**Availability of Information from MSRB**

The City has agreed to provide the foregoing information, only as described above to the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

**Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the owners and Beneficial Owners of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**Compliance with Prior Undertakings**

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

(1) For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

## ADDITIONAL INFORMATION

For additional information regarding this document please contact Ms. April Nixon, Director, Financial and Management Resources, City of Arlington, Texas, at (817) 459-6100.

## TAX MATTERS

### Tax Exemption

In the opinion of Vinson & Elkins LLP, Bond Counsel, (i) interest on the Obligations is excludable from gross income for federal income tax purpose, under existing law and (ii) the Obligations are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Obligations is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinances authorizing the issuance of the Obligations that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Obligations for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Initial Purchasers, respectively, with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial Purchasers, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants contained in the Ordinances or if the foregoing representations or report are determined to be inaccurate or incomplete, interest on the respective Obligations could become includable in gross income from the date of delivery, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which is "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Obligations, is included in a corporation's "adjusted current earnings," ownership of the Obligations could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Obligations.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather such opinions represent Bond Counsel's legal judgment based on its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations in includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Obligations. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations regardless of the outcome of the audit.

### Additional Federal Income Tax Consequences

### Collateral Tax Consequences

Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Obligations should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Obligations, received or accrued during the year.

### Tax Accounting Treatment of Original Issue Premium Obligations

The issue price of all or a portion of the Obligations may exceed the stated redemption price payable at maturity of such Obligations. Such Obligations (the "Premium Obligations") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Obligation in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Obligation in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Obligation by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined using the yield to maturity on the Premium Obligation based on the initial offering price of such Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Obligation and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Obligations.

### Tax Accounting Treatment of Original Issue Discount Obligations

The issue price of all or a portion of the Obligations may be less than the stated redemption price payable at maturity of such Obligations (the "Original Issue Discount Obligations"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public offering of the Obligation. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Obligations under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Consequences – Collateral Tax Consequences" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Purchaser has purchased the Obligations for contemporaneous sale to the public and (ii) all of the Original Issue Discount Obligations have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover pages of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Obligations will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Obligation accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Obligations which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Obligations.

## OTHER RELEVANT INFORMATION

### Ratings

The Obligations are rated "Aa1" from Moody's, "AA+" from S&P and "AA+" from Fitch. The City's presently outstanding tax supported debt and outstanding certificates of obligation of the City has an underlying rating of "Aa1" by Moody's, "AA+" by S&P and "AA+" by Fitch.

An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Obligations.

### Litigation

The City is a defendant in various lawsuits.

Richard Frame et al v. City of Arlington…APFA lawsuit. Arlington is currently involved in an American with Disabilities Act discrimination lawsuit in which six wheelchair bound Plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights-of-way in the City of Arlington. Arlington contends that Arlington is in compliance with the ADA. Arlington's Motion to Dismiss was granted and the case was appealed to the Fifth Circuit. The Fifth Circuit reversed the dismissal but applied a limitations period of two years. Thus, under the Fifth Circuit's analysis, Arlington would only be responsible for non-compliant sidewalks or curbs constructed in the last two years, which would be virtually none. However, both sides filed a motion for rehearing as Arlington contends that sidewalks are not a program under the ADA and the Plaintiffs contested the two-year statute of limitations. The motion for rehearing was granted and the Fifth Circuit reversed itself again holding that sidewalks were not a program or service of the City. Under the second decision, even if the sidewalk was defective, unless the Plaintiffs were denied access to another City service or program there would be no liability. A motion for rehearing en banc was filed and granted. The probability of an unfavorable outcome is possible, but this case is likely to go to the United States Supreme Court for final determination. If the City were to lose on all grounds, the damage award would be attorneys' fees for the Plaintiffs in an amount likely to exceed $500,000 and an ongoing obligation for certain public works projects by the City.

Diane G. Reed v. City of Arlington (formerly Lubke v. City of Arlington)…APFA lawsuit. Kim W. Lubke ("Lubke") filed this lawsuit on February 15, 2002. The case was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against Arlington for violation of the FMLA. The case was appealed to the Fifth Circuit. On June 30, 2006, the Fifth Circuit affirmed the liability portion of the judgment and remanded the damages portion to the District Court to apply an offset for benefits received from Arlington. Meanwhile, it was learned that Lubke filed bankruptcy prior to his appeal and failed to disclose the trial court judgment to the bankruptcy court. The bankruptcy case was re-opened and the bankruptcy trustee (Plaintiff, Diane G. Reed, ("Reed")) now owns Lubke's claim. The District Court found that Lubke is judicially estopped from pursuing the judgment but the trustee can pursue the claim to the extent of the bankruptcy estate. Further, although after an evidentiary hearing, the Judge reduced Lubke's damages to $357,000, and he awarded attorneys' fees of $695,357. Both sides appealed the Judge's rulings to the Fifth Circuit Court of Appeals. The Fifth Circuit completely dismissed the case. Plaintiff filed a motion for en banc review, which was granted. The likelihood of success for the plaintiff is possible as there is a split in the United States circuits and within the Fifth Circuit on the bankruptcy legal issue that nullified the prior judgment. The liability range in this case is from the current status of zero to over a million dollars if the plaintiff is successful in getting the prior Fifth Circuit opinion reversed.

Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations or insurance coverage, if any, on all such claims will not have a materially adverse affect on the financial condition of the City.

**Registration and Qualification**

The sale of the Obligations has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Obligations have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be offered, sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

**Initial Purchaser of the Series 2011A Bonds**

After requesting competitive bids for the Series 2011A Bonds, the City accepted the bid of Wells Fargo Bank, N.A. (the "Series 2011A Bond Initial Purchaser") to purchase the Series 2011A Bonds at the interest rates shown on the cover page of the Official Statement at a price of 100.69% of par. The Series 2011A Bond Initial Purchaser can give no assurance that any trading market will be developed for the Series 2011A Bonds after their sale by the City to the Series 2011A Bond Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Series 2011A Bond Initial Purchaser.

**Initial Purchaser of the Series 2011B Bonds**

After requesting competitive bids for the Series 2011B Bonds, the City accepted the bid of First Southwest Company (the "Series 2011B Bond Initial Purchaser") to purchase the Series 2011B Bonds at the interest rates shown on the cover page of the Official Statement at a price of 102.35% of par. The Series 2011B Bond Initial Purchaser can give no assurance that any trading market will be developed for the Series 2011B Bonds after their sale by the City to the Series 2011B Bond Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Series 2011 Bond Initial Purchaser.

**Initial Purchaser of the Certificates**

After requesting competitive bids for the Certificates, the City accepted the bid of RBC Capital Markets (the "Certificate Initial Purchaser") to purchase the Certificates at the interest rates shown on page (iii) of the Official Statement at a price of 100.0% of par. The Certificate Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Certificate Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Certificate Initial Purchaser.

**Financial Advisor**

Estrada Hinojosa & Company, Inc ("Estrada Hinojosa"), Dallas, Texas is employed as Financial Advisor to the City in connection with the issuance of the Obligations. Estrada Hinojosa's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Estrada Hinojosa, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in this Official Statement.

**Forward - Looking Statements**

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

**Certification of the Official Statement**

At the time of payment for and delivery of the Obligations, the Purchasers of the Obligations will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda, supplement or amendment thereto, for its Obligations, on the date of such Official Statement, on the date of sale of said Obligations and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since August 31, 2010, the date of the last audited financial statements of the City appearing in the Official Statement.

**Miscellaneous**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in the Official Statement are made subject to all of the provisions of such statutes, documents and resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinances authorizing the issuance of the Obligations also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Initial Purchasers.

/s/ Robert Cluck, M.D.
Mayor
City of Arlington, Texas

ATTEST:
/s/ Mary Supino
City Secretary
City of Arlington, Texas

**SHEDULE I**

**SCHEDULE OF REFUNDED OBLIGATIONS**

**Permanent Improvement Refunding Bonds, Series 2001A**

| Original Dated Date | Original Maturity Date | Interest Rates | Amount |
|---|---|---|---|
| 6/1/2001 | 8/15/2012 | 5.500% | $ 3,010,000 |
| | 8/15/2013 | 5.500% | 1,670,000 |
| | 8/15/2014 | 5.500% | 1,665,000 |
| | 8/15/2015 | 4.750% | 855,000 |
| | 8/15/2016 | 5.000% | 795,000 |
| | | | $ 7,995,000 |

The 2012 - 2016 maturities will be redeemed prior to original maturity on August 15, 2011 at par.

**Permanent Improvement Bonds, Series 2001B**

| Original Dated Date | Original Maturity Date | Interest Rates | Amount |
|---|---|---|---|
| 6/1/2001 | 8/15/2012 | 4.650% | $ 735,000 |
| | 8/15/2013 | 4.800% | 735,000 |
| | 8/15/2014 | 4.900% | 735,000 |
| | 8/15/2015 | 5.000% | 735,000 |
| | 8/15/2016 | 5.050% | 735,000 |
| | 8/15/2017 | 5.125% | 735,000 |
| | 8/15/2021 | 5.300% [2] | 2,940,000 |
| | | | $ 7,350,000 |
| | Total Refunded Obligations | | $ 19,645,000 |

The 2012 - 2021 maturities will be redeemed prior to original maturity on August 15, 2011 at par.

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[1] The Commercial Paper notes will be paid at maturity on July 8, 2011 at par.
[2] Represents a Term Bond with mandatory sinking fund payments on August 15, 2018, August 15, 2019, August 15, 2020 and a final maturity on August 15, 2021.

# APPENDIX A

## GENERAL INFORMATION REGARDING THE CITY

## THE CITY OF ARLINGTON

### The City

The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City's location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundary is approximately 99.4 square miles.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

### General

The City operates under the Council-Manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

### Mayor and City Council

Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinances, resolutions and zoning decisions are presented at Council meetings at 6:30 p.m. on the second and fourth Tuesday of each month. Council meetings are broadcast on the local cable public access station and webcast. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

### Administration

The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney, City Auditor and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City's financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

*[Remainder of page intentionally left blank]*

## ECONOMIC AND DEMOGRAPHIC FACTORS

### Population

The 2010 census population for the City of Arlington is 365,438. The following table presents population figures for selected years.

**Population and Rates of Change**
**Arlington and the United States**
**Selected Years**

| | | | | | |
|---|---|---|---|---|---|
| 1950 | (1) | 7,692 | | 151,325,798 | |
| 1960 | (1) | 44,775 | 19.26% | 179,323,175 | 1.71% |
| 1970 | (1) | 90,643 | 7.31% | 203,211,926 | 1.26% |
| 1980 | (1) | 160,113 | 5.85% | 226,545,805 | 1.09% |
| 1990 | (1) | 261,721 | 5.04% | 248,709,873 | 0.94% |
| 2000 | (1) | 332,969 | 2.44% | 281,421,906 | 1.24% |
| 2010 | (1) | 365,438 | 0.93% | 308,745,538 | 0.93% |
| 2011 | (2) | 368,854 | 0.93% | 312,759,230 | 1.30% |

Source: U.S. Dept. of Commerce, U.S. Census, and the Community Development and Planning Department Estimates.

(1) Actual Census population.

(2) Estimated population for City of Arlington calculated at 0.9348% annual growth per the City of Arlington, TX. Estimated population from the United States is calculated at 1.28% annual growth rate, per the United States Census Bureau.

### Employment

As illustrated in the table below, the City has maintained lower unemployment rates than the United States and the State of Texas. As of July 2010, the City's unemployment rate averaged 8.1 percent compared to the U.S. rate of 9.6 percent and the Texas rate, which was 8.2 percent.

**Unemployment Rate**
**Annual Average Rates**
**2006 to 2010**

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Arlington** | 7.5% | 7.1% | 4.5% | 4.2% | 4.8% |
| **Texas** | 8.1% | 7.5% | 4.8% | 4.3% | 4.9% |
| **United States** | 9.5% | 9.3% | 5.8% | 4.6% | 4.6% |

Source: U.S. Bureau of Labor Statistics

(1) City of Arlington, as of July 2010.

**Arlington Major Employers** [(1)]

| Name | Type of Business | Number of Employees |
|---|---|---|
| Arlington Independent School District | Public Education | 5,144 |
| University of Texas at Arlington | Higher Education | 4,987 |
| Six Flags Over Texas | Amusement Park | 2,500 |
| City of Arlington | Municipality | 2,468 |
| General Motors | Automobile Assembly | 2,362 |
| Texas Health Resources - AMH | Health Care | 2,105 |
| Americredit | Finance | 1,570 |
| Texas Rangers Baseball Club | Sports Entertainment | 1,295 |
| Medical Center of Arlington | Medical Center | 1,250 |
| Chase Bank | Finance | 1,117 |

(1) Arlington Chamber of Commerce as of June, 2010. Includes part-time and peak seasonal employees.

**Building Permits**

During the FY 2010 the City issued 4,576 building permits with a total value of $173,801,000. Presented below is a table covering building permit activity for the last four years:

| | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | **Permits** | **Value (000's)** | **Permits** | **Value (000's)** | **Permits** | **Value (000's)** | **Permits** | **Value (000's)** |
| New Single Family | 1,533 | $ 53,054 | 1,384 | $ 58,559 | 1,838 | $ 91,597 | 2,237 | $ 147,130 |
| New Multifamily | - | - | 2 | 2,605 | 11 | 35,620 | 1 | 11,000 |
| New Commercial | 764 | 112,241 | 720 | 202,377 | 796 | 197,338 | 730 | 125,151 |
| Other (Additions, etc. [(1)]) | 2,279 | 8,506 | 2,500 | 3,107 | 3,264 | 4,793 | 2,996 | 2,994 |
| Grand Total | 4,576 | 173,801 | 4,606 | 266,648 | 5,909 | 329,349 | 5,964 | 286,275 |

Source: City of Arlington Building Inspections Division

(1) Number of permits includes: signs, additions, remodels, interior finishes, accessory structures, fences, swimming pools, moves, demolitions and early grading. There is no value associated with move, demolition or early grading permits.

## APPENDIX B

## AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF ARLINGTON FISCAL YEAR 2010

Deloitte.

**Deloitte & Touche LLP**

JPMorgan Chase Tower
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Dallas, TX 75201-6778
USA

Tel: +1 214 840 7000
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Arlington, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Arlington, Texas (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express opinions on the respective financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the City of Arlington, Texas, or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 10.51% and 0.63%, respectively, of total discrete component unit assets as of September 30, 2010, and total program revenues constituting 86.31% and 11.76%, respectively, of total discrete component unit program revenues for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Housing Authority of the City of Arlington, Texas, and the Arlington Convention and Visitors Bureau, Inc., are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Arlington, Texas, as of September 30, 2010, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress – TMRS, the Schedule of Funding Progress – Part-Time Deferred Income Trust, the Schedule of Funding Progress – Disability Income Plan, and the Schedule of Funding Progress – Postemployment Healthcare Plan are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Arlington's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Deloitte & Touche LLP

March 4, 2011

**CITY OF ARLINGTON, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**SEPTEMBER 30, 2010**

This discussion and analysis of the City of Arlington's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2010. It should be read in conjunction with the accompanying letter of transmittal and financial statements.

## FINANCIAL HIGHLIGHTS

- The City's net assets of governmental activities **increased** by $64M (5.2%) this year, $59M of which is due to a net increase in cash and cash equivalents.

  - The City's **increase** in total net assets of $89.7M for the year was $330.3M lower than the $420M increase last year. This variance is primarily attributable to the one-time $261M in contributions received from the Cowboys Stadium, L.P. for construction of the Cowboys Project in fiscal year 2009.

  - The City's governmental funds reported combined ending fund balances of $253M, an **increase** of $74M over last year. This increase is due to:

    - $31M increase in the Streets Capital Projects Fund, which issued bonds in the amount of $34.7M, offset by a decrease in interest contribution revenue.
    - $10M increase in the Debt Service Fund, primarily due to prior year refunding and termination of variable rate debt and swaps for the stadium.
    - $25M increase in the nonmajor special revenue and capital projects funds, primarily due to an issuance of bonds and certificates of obligations in the amount of $28.7M.
    - $8M increase in the General Fund fund balance. The General Fund increase was due in part to conservative spending; total General Fund expenditures decreased in 2010 by $5M.

  - The 2010 General Fund unreserved fund balance was $60.6M and unreserved and undesignated fund balance was $3.6M, an **increase** in the aggregate from prior year. In 2009, the comparable balances were $53.1M and $3.7M. Total unreserved and unreserved undesignated fund balance of $60.6M is $7.4M higher than last year primarily due to the addition of the Business Continuity Reserve, designating the use of $6.9M. The designated funds represent one-time funding of the City's Challenge Grant program. The City designated $6.9M in one-time use funds for continuing some operations on a conditional basis. Departments were asked to submit program reductions to be funded from the reserve and were challenged to find additional revenue streams to offset the costs of the programs and positions placed in the Challenge Grant. Programs and positions funded through the funds designated in the Business Continuity Reserve may be eliminated at the end of fiscal year 2011 unless additional revenue streams are identified.

- Total debt of $752.3M **increased** $41.9M during the year. Debt issues in 2010 include $14.7M certificates of obligations, $29.4M Permanent Improvement bonds, $34.5M Permanent Improvement and Refunding bonds and $21.5M Water and Wastewater System Revenue and Refunding bonds. Bond principal payments for 2010 total $44M on existing obligations. Debt is allocated 85.3% for general government, with the remaining 14.7% to water and wastewater activities.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The City's "basic financial statements" have three parts, government-wide financial statements, fund financial statements and notes to the financial statements. This is the portion of the CAFR on which the auditors opine. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview the City's finances.

- **The Statement of Net Assets** presents information on all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. The Statement of Net Assets combines governmental funds' current financial resources (short-term spendable resources) with additional accruals, capital assets and long-term obligations. Other non-financial factors should also be taken into consideration to assess the overall health or financial condition of the City, such as changes in the City's property tax base and the condition of the City's infrastructure.
- **The Statement of Activities** shows how the net assets changed during the most recent year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

In the aforementioned statements, the City's business is divided into three kinds of activities:

- Governmental Activities **–** Most of the City's basic functions are reported here, including general government, public safety, public works, public health, parks and recreation, public welfare, convention and event services and interest and fiscal charges. Property taxes, sales taxes and franchise fees provide the majority of funding for these activities, with the addition of charges for services, grants and contributions.
- Business-type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system is reported here, as well as storm water utilities.
- Component Units – The City includes one blended component unit in its report – Arlington Property Finance Authority, Inc. For fiscal year 2010, the City includes six discretely presented component units in its report – Arlington Sports Facilities Development Authority, Inc. (ASFDA), Arlington Housing Authority (AHA), Arlington Convention and Visitors Bureau (ACVB), Arlington Housing Finance

Corporation (AHFC), Arlington Tomorrow Foundation (ATF), and Arlington Industrial Corporation (AIC). Although legally separate, these component units are important because the City is financially accountable for them. The ASFDA was dissolved in August of 2010. The assets and liabilities of the ASFDA became assets and liabilities of the City as a whole.

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are defined in a reconciliation following the fund financial statements.

The City maintains twenty-two individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, Streets Capital Projects Fund and the Stadium Venue Fund, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregate, nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City charges customers for water and sewer services and storm water runoff. These services are reported in enterprise funds, a type of proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The internal service funds, another component of proprietary funds, report activities that provide supplies and services for the City such as self-insurance and fleet maintenance functions.

## THE CITY AS TRUSTEE

### Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for several funds, including the Part-Time Deferred Income Trust, Thrift Savings Plan, and Disability Income Plan, as well as certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. While individual funds are provided in the report, the assets and activities of these funds are excluded from the City's government-wide financial statements, because the City cannot use these assets to finance its operations.

## NOTES TO THE FINANCIAL STATEMENTS AND OTHER INFORMATION

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees.

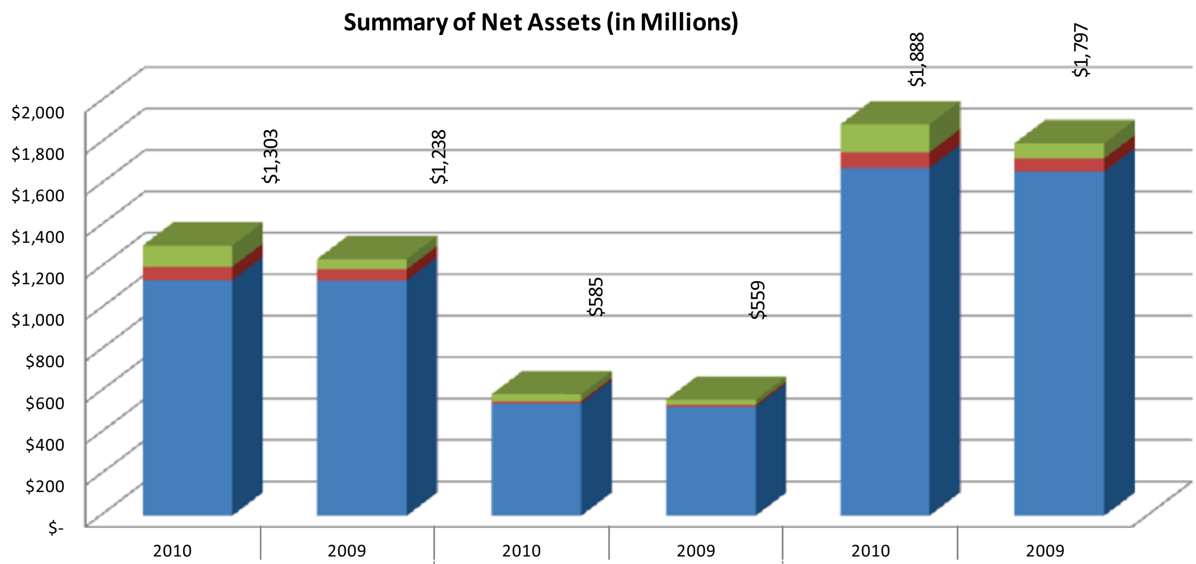
## THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $1.9B as of September 30, 2010. Analyzing the net assets and net expenses of governmental and business-type activities separately, the governmental activities net assets are $1.3B and the business-type activities net assets are $585M. This analysis focuses on the net assets and changes in general revenues and significant expenses of the City's governmental and business-type activities.

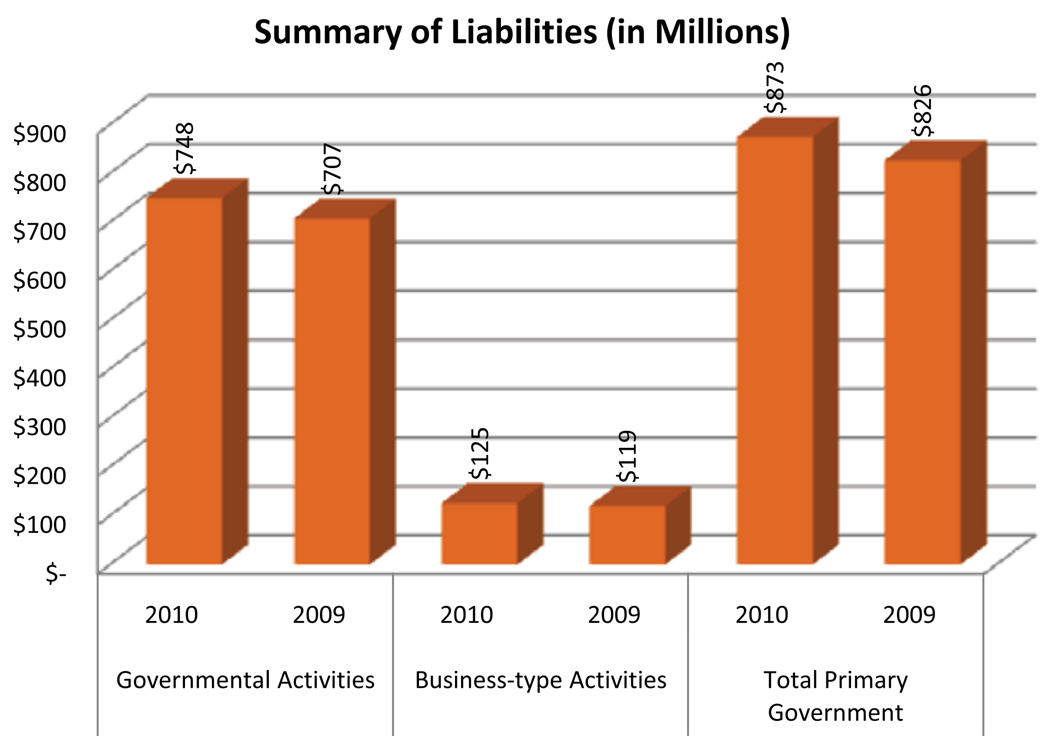
**Table 1**
**Summary of Net Assets**
**(Amounts Expressed in Millions)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | $ 372 | $ 279 | $ 102 | $ 88 | $ 474 | $ 367 |
| Capital assets | 1,679 | 1,665 | 608 | 590 | 2,287 | 2,255 |
| Total assets | 2,051 | 1,945 | 710 | 678 | 2,761 | 2,623 |
| Long-term liabilities | 659 | 616 | 102 | 92 | 761 | 708 |
| Other liabilities | 89 | 91 | 23 | 27 | 112 | 118 |
| Total liabilities | 748 | 707 | 125 | 119 | 873 | 826 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,136 | 1,135 | 541 | 525 | 1,677 | 1,660 |
| Restricted | 65 | 54 | 11 | 10 | 76 | 64 |
| Unrestricted | 102 | 49 | 33 | 24 | 135 | 73 |
| Total net assets | $1,303 | $ 1,238 | $ 585 | $ 559 | $ 1,888 | $ 1,797 |

By far the largest portion of the City's net assets (87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

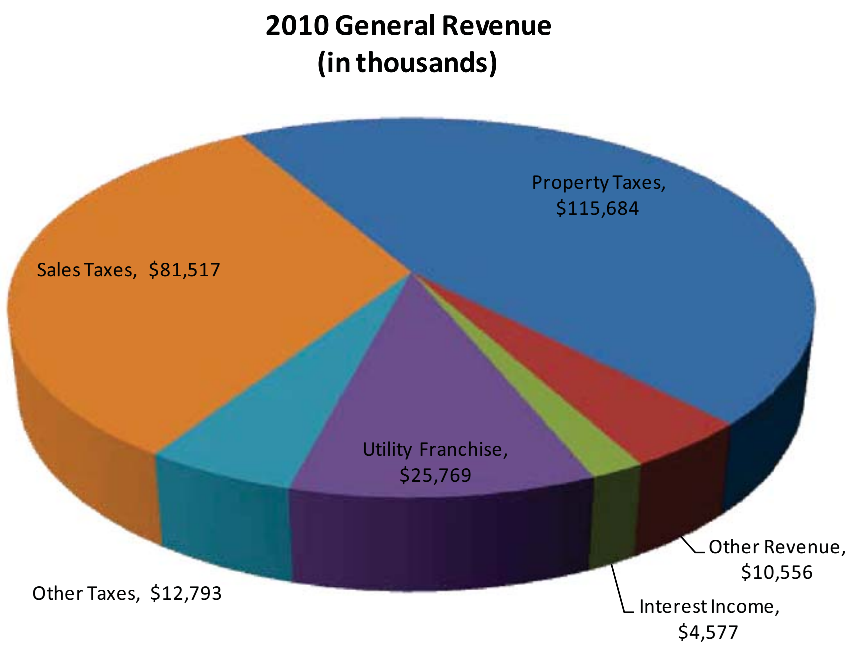


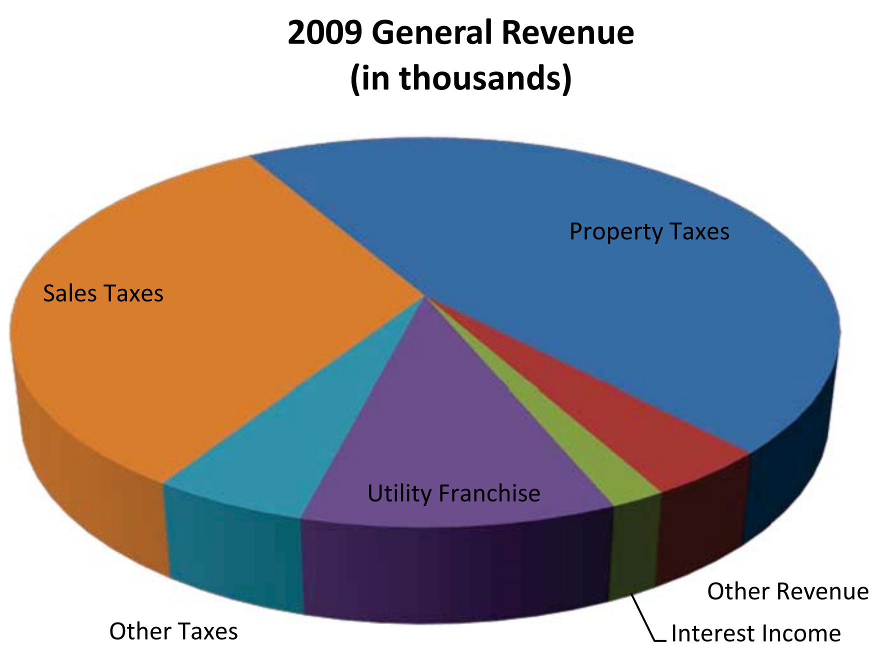

| | Governmental Activities 2010 | Governmental Activities 2009 | Business-type Activities 2010 | Business-type Activities 2009 | Total Primary Government 2010 | Total Primary Government 2009 |
|---|---|---|---|---|---|---|
| Unrestricted | $102 | $49 | $33 | $24 | $135 | $73 |
| Restricted | $65 | $54 | $11 | $10 | $76 | $64 |
| Investment in Capital | $1,136 | $1,135 | $541 | $525 | $1,677 | $1,660 |



## Governmental Activities

The City's general revenues increased two percent ($5.1M) compared to the prior year. The primary reason for the increase was a $3.1M increase in sales tax and other taxes. Interest revenues continued to decline (19%); other miscellaneous revenue increased $4.M.



The assessed value of real and personal property in the City rose slightly, $4.3M (0.02%). The taxable value of real and personal property decreased by 1.34 percent; however, the properties under protest decreased from the prior year, adding enough value to offset the assessed value decrease in existing property. The property tax rate of $0.6480 per $100 assessed valuation remained the same as in 2009.

Governmental and Business-type activities increased the City's net assets by $64M and $25.4M, respectively. The key elements of these increases are as follows:

**Table 2**
**Changes in Net Assets**
**(Amounts Expressed in Thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Revenues:** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | $55,540 | $51,829 | $ 116,502 | $ 115,144 | $ 172,042 | $ 166,973 |
| Operating grants and contributions | 23,127 | 24,578 | - | - | 23,127 | 24,578 |
| Capital grants and contributions | 72,515 | 411,788 | 1,388 | 2,018 | 73,903 | 413,806 |
| General Revenues: | | | | | | |
| Taxes | 209,994 | 208,456 | - | - | 209,994 | 208,456 |
| Utility franchise fees | 25,769 | 25,038 | - | - | 25,769 | 25,038 |
| Interest income | 4,577 | 5,629 | 895 | 1,581 | 5,472 | 7,210 |
| Other | 10,556 | 6,606 | (41) | 183 | 10,515 | 6,789 |
| **Total revenues** | 402,078 | 733,924 | 118,744 | 118,926 | 520,822 | 852,850 |
| **Expenses:** | | | | | | |
| General government | 70,517 | 40,403 | - | - | 70,517 | 40,403 |
| Public safety | 134,767 | 128,219 | - | - | 134,767 | 128,219 |
| Public works | 67,135 | 94,171 | - | - | 67,135 | 94,171 |
| Public health | 3,003 | 2,406 | - | - | 3,003 | 2,406 |
| Parks and recreation | 28,020 | 28,228 | - | - | 28,020 | 28,228 |
| Public welfare | 12,251 | 10,213 | - | - | 12,251 | 10,213 |
| Convention and event services | 6,321 | 6,299 | - | - | 6,321 | 6,299 |
| Interest and fiscal charges | 29,444 | 42,485 | - | - | 29,444 | 42,485 |
| Water and sewer | - | - | 79,619 | 80,808 | 79,619 | 80,808 |
| **Total expenses** | 351,458 | 352,424 | 79,619 | 80,808 | 431,077 | 433,232 |
| **Increase in net assets before transfers** | 50,620 | 381,500 | 39,125 | 38,118 | 89,745 | 419,618 |
| Transfers & capital contributions | 13,693 | (43,278) | (13,693) | 43,278 | - | - |
| **Increase in net assets** | 64,313 | 338,222 | 25,432 | 81,396 | 89,745 | 419,618 |
| **Net Assets, October 1,** | 1,238,215 | 899,993 | 559,205 | 477,809 | 1,797,420 | 1,377,802 |
| **Net Assets, September 30** | $ 1,302,528 | $ 1,238,215 | $ 584,637 | $ 559,205 | $ 1,887,165 | $ 1,797,420 |

The decrease in capital grants and contributions compared to prior year is the result of contributions from the Cowboys Stadium, L.P. for construction of the Cowboys Project received in 2009. $403.5M was received in 2009 compared to $37.3M in this year.

Increases in general government expenses in fiscal year 2010 of $30M are due to several factors. The Cowboys Stadium depreciation is recorded in general government in the government-wide statements; 2010 was the first full year of depreciation, which added $11.7M to expenses. Non-capital construction in progress completed during the fiscal year added an additional $7.8M. Fewer projects were completed and capitalized in fiscal year 2010 than 2009, resulting in $15.4M less reduction of current year expenses than in prior years.

The decrease in expenses in public works was due to fewer capital projects undertaken during the fiscal year than in the previous year and the completion of projects carried forward from prior years, which reduced current year expenses when capitalized.

Expense increases in public safety of $2.5M were due primarily to telephone and dispatch charges as well as motor vehicle and computer expense increases.

The decrease in expenses in interest and fiscal charges from 2009 to 2010 was primarily attributable to swap termination fees on the refunding of the Dallas Cowboys Complex Special Obligation Bonds, Series 2005B booked in fiscal year 2009.

Revenue and expense variances in business activities (Water and Wastewater/Storm Water Utility) were insignificant this year versus last year.

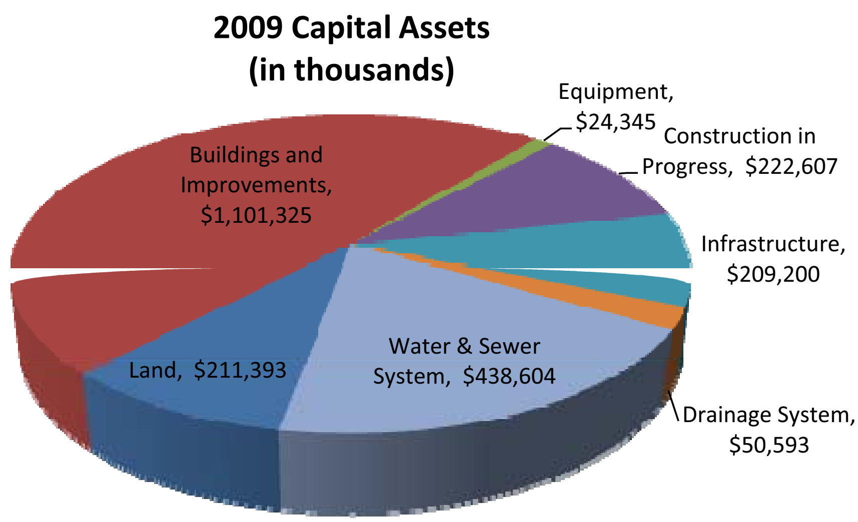
## CAPITAL ASSET AND DEBT ADMINISTRATION

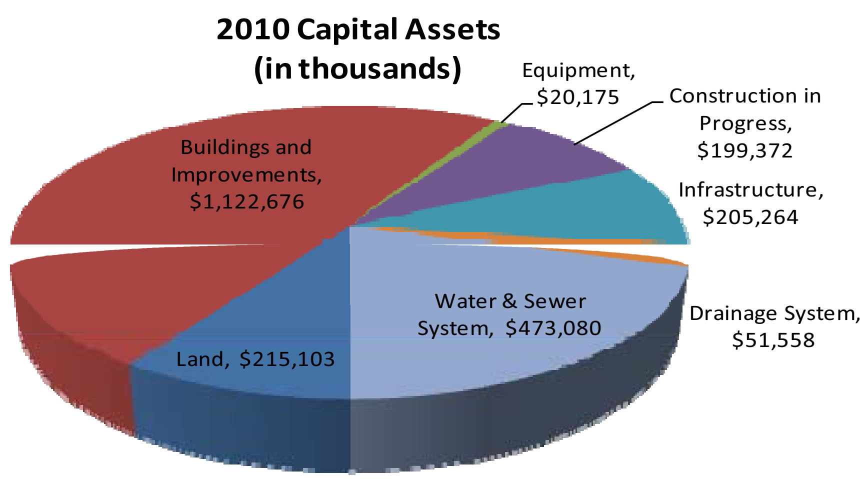
### Capital Assets

At the end of the fiscal year 2010, the City had $2.29B invested in a broad range of capital assets. This amount represents a net increase (including additions and deductions) of $31.2M or 1.4% over the prior fiscal year. The increase is comprised of a $14.1M increase in governmental activities and a $17.1M increase in business-type activities. There was a much larger increase in 2009 in governmental activities due to the $417M related to the Cowboys Project. The stadium was completed in July 2009 and $1.1B was transferred from construction in progress to buildings and improvements. This year's increase is related to typical, ongoing improvements of City infrastructure and replacement of machinery and equipment. Footnote 5 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

**Table 3**
**Capital Assets, net of Accumulated Depreciation**
**(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 208,407 | $ 204,698 | $ 6,696 | $ 6,695 | $ 215,103 | $ 211,393 |
| Buildings and improvements | 1,121,027 | 1,099,619 | 1,649 | 1,706 | 1,122,676 | 1,101,325 |
| Equipment | 19,139 | 23,223 | 1,036 | 1,122 | 20,175 | 24,345 |
| Construction in progress | 125,869 | 128,913 | 73,503 | 93,694 | 199,372 | 220,607 |
| Infrastructure | 205,264 | 209,200 | - | - | 205,264 | 209,200 |
| Drainage system | - | - | 51,558 | 50,593 | 51,558 | 50,593 |
| Water and sewer system | - | - | 473,080 | 438,604 | 473,080 | 438,604 |
| Totals | $ 1,679,706 | $ 1,665,653 | $ 607,522 | $ 592,414 | $ 2,287,228 | $ 2,256,067 |



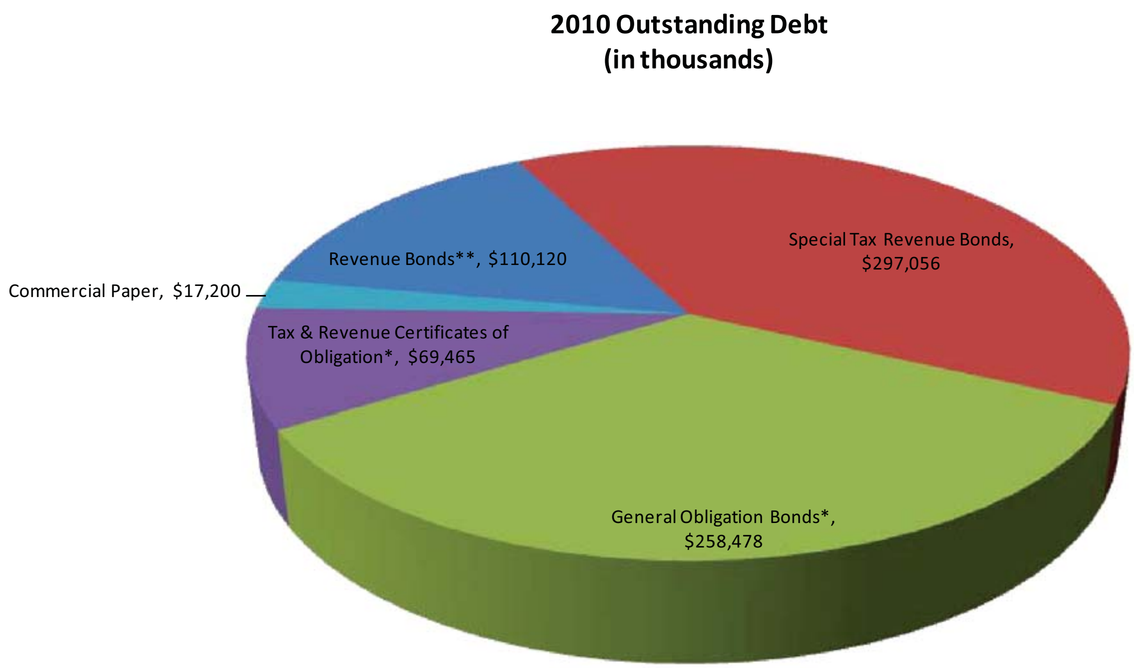




Major capital asset additions during the fiscal year include the following:

- Private developer capital contributions of $1.4M to the City's water and sewer infrastructure in connection with various residential and commercial developments
- Water and sewer system capital improvements and expansion of $33M
- Storm drainage and street construction projects capital outlay totaling $26M
- Continuing construction and building improvements for the Cowboys Stadium of $41M
- Improvements to parks and recreation facilities of $3.8M, and a transfer from the dissolved component unit, Arlington Sports Facilities Development Authority Fund (ASFDA), of $ 2.7M
- Construction of the new airport terminal of $2.9M.
- Construction of the new fire station #4 of $1.7M.

## Debt

At year-end, the City had $749.9 in debt, an increase of $39.5M from 2009.




*Secured by City Tax Base
**Secured by Water and Sewer Revenue

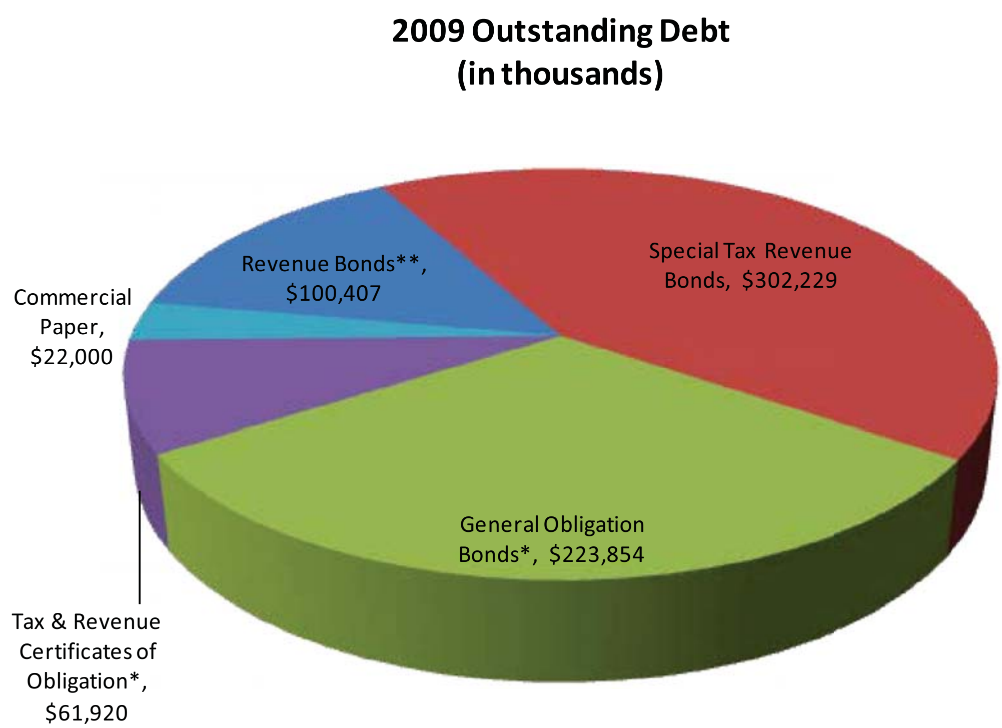


**Table 4**
**Outstanding Debt**
**(Amounts Expressed In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| General obligation bonds (backed by the City) | $ 258,478 | $ 223,854 | $ - | $ - | $ 258,478 | $ 223,854 |
| Combination tax and revenue certificates of obligation (backed by the City) | 69,465 | 61,920 | - | - | 69,465 | 61,920 |
| Commercial Paper | 17,200 | 22,000 | - | - | 17,200 | 22,000 |
| Special tax revenue bonds | 297,056 | 302,229 | - | - | 297,056 | 302,229 |
| Revenue bonds (backed by fee revenues) | - | - | 110,120 | 100,407 | 110,120 | 100,407 |
| Totals | $ 642,199 | $ 610,003 | $ 110,120 | $ 100,407 | $ 752,319 | $ 710,410 |

During the current fiscal year, the City issued $63.9M in Permanent Improvement and Refunding bonds for the purpose of making various capital improvements and refunding a portion of the City's outstanding debt. The City also issued $14.7M in Combination Tax and Revenue Certificates of Obligation. No new special obligation bonds were issued in 2010. In October, 2009 and June, 2010, the City issued $9.6M and $21.5M (respectively) in Water and Wastewater System Revenue and Refunding bonds for water and sewer system improvements and to refund a portion of the City's outstanding revenue debt. Footnote 8 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

In 2010, the City's tax supported debt rating was upgraded to AA+ by Fitch, Inc. and was upgraded from an Aa2 to Aa1 rating by Moodys Investor Services. The City maintained its AA+ rating by Standard and Poor's Corporation on its tax supported debt. The City also received an upgrade to ratings of water and wastewater revenue bonds, AA+ rating from Standard and Poor's Corporation, Aa2 rating from Moodys Investor Service and AAA from Fitch, Inc. The ratings on the Cowboys Complex Special Obligations remained rated A2 by Moody's and AA by Standard and Poor's.

General bonded debt per capita went from $824 in 2009 to $933 in 2010.

The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net bonded debt to assessed value of all taxable property is 1.87%.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over $500,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors which can vary considerably from year to year. Claim liability increased to $9.9M in 2009 and then decreased in 2010 to $9.5M.

## DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT

The Stadium Complex opened in July 2009, and both the 2009 and 2010 football seasons were played in Arlington. The City and the Complex hosted Super Bowl XLV in 2011.

In February of 2005, the City, as landlord, and the Cowboys Stadium, L.P., as tenant, entered into a funding and closing agreement for the Dallas Cowboys Complex Development Project. Pursuant to the agreement, the City paid $325M, to build the Complex. In July of 2005, the City issued $298M Dallas Cowboy Complex Special Obligations Series A, B, and C, pledging one-half cent sales tax, 2% hotel occupancy tax and 5% car rental tax. The 2005B bonds were refunded partially by Series 2008 in November of 2008 and the remainder was refunded by Series 2009 in April of 2009. The proceeds of debt issuance, along with interest earnings, and revenues from the pledged taxes, which are not required for debt service, provide the City's funding for the Complex.

As part of the closing agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (tenant) for lease of the Complex. The lease calls for an initial term of 30 years at a rental rate of $2M per year and contains several renewal options. The lease also provides the tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City equal to 5% of the net naming rights revenue, if any, received by the tenant capped at $500,000 per year.

In July of 2006, $148M Dallas Cowboy Complex Admissions and Parking Tax Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Cowboys Complex, with security provided by a Guaranty Agreement from The Cowboys Stadium L.P. The proceeds of the bond sale, along with interest earnings, provided a portion of the Cowboy's funding for the project. The bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources. The bonds do not constitute a debt or pledge of the faith and credit of the City and are not reported as a liability in the City's financial statements but are disclosed as conduit debt.

The City and the Dallas Cowboys Football Club, LTD. entered into a franchise agreement that requires the Dallas Cowboys NFL football franchise to remain in Arlington and to play all of the team's home games in the Complex for a minimum of 30 years with four ten-year renewal options.

## THE CITY'S FUNDS

The governmental funds of the City reported a combined fund balance of $253M. The General fund balance was $66.5M, an increase of $8M from prior year. This increase can be attributed to a deliberate attempt by City management to reduce spending. The General fund expenditures were $4.8M under the prior year. The conservative spending and a modest increase in revenues allowed for the overall increase in General Fund balance. The Debt Service fund balance was also higher than prior year, in part because of the lease with the Cowboys stadium, and an unrealized gain on the fair value of investments of $2M. The Debt Service Fund ended the year with a fund balance of $58.7M. Other changes in fund balances should be noted:

- The City decreased spending in the Street Capital Projects fund in 2010, down $5M from 2009. Fund balance increased with the debt issue in the last quarter of fiscal year 2010, which added $34.9M to the fund for street projects beginning in fiscal year 2011, including work on Abram Street, Bowman Springs and Lamar.

- The City's water and sewer fund net assets of $520M increased by $21.7M over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding expenses by $33.9M.

- The Storm Water Utility fund, created in 2009 to address the City's need to manage issues associated with storm water runoff, saw an increase to fund balance in 2010; storm water fee revenues exceeded fund expenses by $4.3M, increasing fund balance to $65.8M at the end of the fiscal year.

## GENERAL FUND BUDGET HIGHLIGHTS

There were no General Fund budget amendments in 2010.

Actual expenditures on a budgetary basis of $188.7M were less than budgeted expenditures of $194.6M. Spending that came in under estimates in General Government and Public Works accounted for a majority of the savings.

Revenues on a budgetary basis exceeded expectations of $197M by a net $5.3M. Some revenues, including property tax collections, leases, rents and concessions, and licenses and permits exceeded budgetary expectations by $2-4M each. Others, including service charges and utility franchise fees were $2-3M under expected levels.

## ECONOMIC FACTORS AND FISCAL YEAR 2011

The City's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for the business-type activities. The City continues to anticipate a mixed future revenue picture and has taken a proactive approach to decreasing expenditures during this economic downturn, creating employee teams to examine expenditures across departments and look for short and long-term solutions through organizational redesign and re-engineering.

Because the City has significant one-time and unpredictable revenues, and short-term economic slowdowns can cause disruptions in service that are reinstated in later years, the City reserved $6.9M in one-time use funds for continuing some operations on a conditional basis as a key part of balancing the 2011 budget. This Business Continuity Reserve will provide one-time funding for department identified programs and positions placed in the Challenge Grant program. The challenge to departments is to find new revenue streams or cost savings to provide continuous funding for these positions and programs; if unfunded, they will terminate as of 9/30/2011. The City developed this program as an innovative way to deal with budget shortfalls and economic uncertainty.

Property taxes are estimated to be down from 2010, and while sales tax receipts appear to be recovering, the City is still faced with some uncertainty in revenue.

The City's total General Fund revenues for 2011 are budgeted at $197.6M, down $2M from 2010, while total General Fund expenditures are expected to be $195M, down half a million dollars from 2010.

The General Fund's largest single revenue source is property taxes. This revenue represents 40% of the General Fund budget. The property tax rate for 2010 is $0.6480 per $100 valuation, unchanged since 2004. The tax rate is broken into two pieces, operations and maintenance, $0.4330 per $100 valuation, to the General Fund, and interest and sinking, $0.2150 per $100 valuation, for debt service. (66.8% O&M, 33.4% I&S) The General Fund property tax revenue for 2011 is estimated to be $73M, down $6M (7.5%) from last year's estimate.

The City's portion of the sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is dedicated to the Street Maintenance Fund, and one-half cent provides for the debt service for the Cowboy Project debt. Sales tax revenue for the General Fund for fiscal year 2011 is estimated at $47M, a 2.3% increase from 2010.

The largest revenue sources for the Water and Sewer Fund is water sales and wastewater treatment budgeted at $116M. The City maintains a rate structure designed to ensure that each category of service is self-supporting.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's fiscal accountability. If you have questions about this report or need additional financial information, contact the Controller, Barbara Whitehorn (barbara.whitehorn@arlingtontx.gov), in the Financial and Management Resources Department, at the City of Arlington, 101 S. Mesquite St., Suite 800, Arlington, TX 76010. The City is also an active member of MSRB's Electronic Municipal Market Access (EMMA), which keeps the Arlington CAFR on file. Additionally, the CAFR can be found on the City's website at http://www.arlingtontx.gov.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF NET ASSETS**
**AS OF SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Primary Government | | | |
|---|---|---|---|---|
| | **Governmental Activities** | **Business-type Activities** | **Total** | **Component Units** |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 284,232 | $ 23,157 | $ 307,389 | $ 16,606 |
| Investments | 4,065 | - | 4,065 | 59,979 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 4,605 | - | 4,605 | - |
| Sales taxes | 14,420 | - | 14,420 | - |
| Grants | - | - | - | 96 |
| Trade accounts | 213 | 9,100 | 9,313 | - |
| Franchise fees | 6,480 | - | 6,480 | - |
| Unbilled trade accounts | - | 7,946 | 7,946 | - |
| Special assessments | 192 | - | 192 | - |
| Accrued interest | 1,791 | - | 1,791 | 642 |
| Ballpark lease | 16,563 | - | 16,563 | - |
| Settlement agreement | 10,242 | - | 10,242 | - |
| Other | 5,306 | 36 | 5,342 | 364 |
| Internal balances | 916 | (916) | - | - |
| Due from other governments | 6,811 | - | 6,811 | - |
| Deferred charge - issuance costs | 6,850 | - | 6,850 | - |
| Inventory of supplies | 1,465 | 420 | 1,885 | - |
| Prepaid expenses | 39 | - | 39 | 22 |
| Net other post employment benefit asset | 192 | - | 192 | - |
| Restricted assets- | | | | |
| Bond contingency- | | | | |
| Investments | - | 11,468 | 11,468 | - |
| Accrued interest receivable | - | 29 | 29 | - |
| Capital construction- | | | | |
| Investments | - | 46,050 | 46,050 | - |
| Assessments receivable | - | 4 | 4 | - |
| Meter deposits- | | | | |
| Investments | - | 4,853 | 4,853 | - |
| Closure/Post-closure trust fund | | | | |
| Investments | 6,738 | - | 6,738 | - |
| Capital Assets- | | | | |
| Land | 208,407 | 6,696 | 215,103 | - |
| Buildings and improvements | 1,244,562 | 2,833 | 1,247,395 | 563 |
| Water and sewer system | - | 681,348 | 681,348 | - |
| Machinery and equipment | 77,541 | 11,219 | 88,760 | 1,013 |
| Infrastructure | 758,931 | - | 758,931 | - |
| Drainage systems | - | 79,845 | 79,845 | - |
| Construction in progress | 125,869 | 73,503 | 199,372 | - |
| Accumulated depreciation | (735,604) | (247,921) | (983,525) | (926) |
| **Total Assets** | $ 2,050,826 | $ 709,670 | $ 2,760,496 | $ 78,359 |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF NET ASSETS**
**AS OF SEPTEMBER 30, 2010**
**(CONTINUED)**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Primary Government | | | |
|---|---|---|---|---|
| | **Governmental Activities** | **Business-type Activities** | **Total** | **Component Units** |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | $ 18,022 | $ 3,502 | $ 21,524 | $ 835 |
| Retainage payable | 1,613 | - | 1,613 | - |
| Accrued interest | 1,976 | - | 1,976 | - |
| Unearned revenue | 9,574 | - | 9,574 | 3,081 |
| Commercial paper | 17,200 | - | 17,200 | - |
| Payable from restricted assets- | | | | |
| Accounts payable and accrued liabilities | - | 1,092 | 1,092 | - |
| Retainage payable | - | 2,227 | 2,227 | - |
| Accrued interest | - | 1,327 | 1,327 | - |
| Meter deposits | - | 4,854 | 4,854 | - |
| Non-current liabilities | | | | |
| Due within one year: | | | | |
| Estimated claims payable | 5,216 | - | 5,216 | - |
| Sales tax payable | 223 | - | 223 | - |
| General obligation and certificates of obligation debt | 26,750 | - | 26,750 | - |
| Special tax revenue debt | 7,415 | - | 7,415 | - |
| Accrued compensated absences | 1,322 | 105 | 1,427 | - |
| Capital lease obligation | 255 | - | 255 | - |
| Revenue bonds | - | 10,000 | 10,000 | - |
| Due in more than one year: | | | | |
| Arbitrage rebate | 75 | - | 75 | - |
| Estimated claims payable | 4,269 | - | 4,269 | - |
| Sales tax payable | 279 | - | 279 | - |
| Net other post-employment benefit obligation | 17,056 | - | 17,056 | - |
| Net pension obligation | 14,266 | - | 14,266 | - |
| General obligation and certificates of obligation debt | 301,193 | - | 301,193 | - |
| Special tax revenue debt | 289,641 | - | 289,641 | - |
| Landfill closure accrued liabilities | 6,738 | - | 6,738 | - |
| Accrued compensated absences | 25,131 | 1,806 | 26,937 | - |
| Capital lease obligation | 84 | - | 84 | - |
| Revenue bonds | - | 100,120 | 100,120 | - |
| **Total Liabilities** | 748,298 | 125,033 | 873,331 | 3,916 |
| | | | | |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 1,136,342 | 541,227 | 1,677,569 | 650 |
| Restricted for debt service | 58,696 | 10,140 | 68,836 | - |
| Restricted for use of impact fees | 6,093 | - | 6,093 | - |
| Restricted for housing assistance | - | - | - | 2,195 |
| Restricted for endowments | - | - | - | 66,216 |
| Unrestricted | 101,397 | 33,270 | 134,667 | 5,382 |
| **Total Net Assets** | $ 1,302,528 | $ 584,637 | $ 1,887,165 | $ 74,443 |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary Government:** | | | | |
| **Governmental Activities:** | | | | |
| General government | $ 70,517 | $ 21,938 | $ 3,490 | $ 27,676 |
| Public safety | 134,767 | 17,429 | 7,673 | - |
| Public works | 67,135 | 1,322 | 1,490 | 7,391 |
| Public health | 3,003 | 2,980 | 429 | - |
| Parks and recreation | 28,020 | 8,879 | 4 | 37,448 |
| Public welfare | 12,251 | 204 | 10,041 | - |
| Convention and event services | 6,321 | 2,788 | - | - |
| Interest and fiscal charges | 29,444 | - | - | - |
| **Total Governmental Activities** | 351,458 | 55,540 | 23,127 | 72,515 |
| **Business-Type Activities:** | | | | |
| Water and sewer | 75,602 | 107,800 | - | 1,388 |
| Storm water utility | 4,017 | 8,702 | - | - |
| **Total Business-Type Activities** | 79,619 | 116,502 | - | 1,388 |
| **Total Primary Government** | $ 431,077 | $ 172,042 | $ 23,127 | $ 73,903 |
| **Component Units:** | | | | |
| Arlington Sports Facilities Development Authority, Inc. | $ 30,810 | $ 534 | $ - | $ - |
| Arlington Housing Authority | 27,258 | - | 27,295 | - |
| Arlington Convention and Visitors Bureau | 3,719 | 3,719 | - | - |
| Arlington Tomorrow Foundation | 1,550 | - | - | - |
| Arlington Housing Finance Corporation | 121 | - | 78 | - |
| **Total Component Units** | $ 63,458 | $ 4,253 | $ 27,373 | $ - |

General Revenues:
- Property taxes
- Sales taxes
- Criminal justice tax
- State liquor tax
- Bingo tax
- TIF/TIRZ
- Occupancy tax
- Franchise fees based on gross receipts
- Interest
- Net increase in fair value of investments
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The notes to the financial statements are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| $ (17,413) | $ - | $ (17,413) | $ - |
| (109,665) | - | (109,665) | - |
| (56,932) | - | (56,932) | - |
| 406 | - | 406 | - |
| 18,311 | - | 18,311 | - |
| (2,006) | - | (2,006) | - |
| (3,533) | - | (3,533) | - |
| (29,444) | - | (29,444) | - |
| (200,276) | - | (200,276) | - |
| | | | |
| - | 33,586 | 33,586 | - |
| - | 4,685 | 4,685 | - |
| - | 38,271 | 38,271 | - |
| $ (200,276) | $ 38,271 | $ (162,005) | $ - |
| | | | |
| $ - | $ - | $ - | $ (30,276) |
| - | - | - | 37 |
| - | - | - | - |
| - | - | - | (1,550) |
| - | - | - | (43) |
| $ - | $ - | $ - | $ (31,832) |
| | | | |
| 115,684 | - | 115,684 | - |
| 81,517 | - | 81,517 | - |
| 402 | - | 402 | - |
| 1,392 | - | 1,392 | - |
| 124 | - | 124 | - |
| 4,169 | - | 4,169 | - |
| 6,706 | - | 6,706 | - |
| 25,769 | - | 25,769 | - |
| 4,577 | 895 | 5,472 | 2,939 |
| 1,709 | (41) | 1,668 | 3,595 |
| 8,847 | - | 8,847 | 12,111 |
| 13,693 | (13,693) | - | - |
| 264,589 | (12,839) | 251,750 | 18,645 |
| 64,313 | 25,432 | 89,745 | (13,187) |
| 1,238,215 | 559,205 | 1,797,420 | 87,630 |
| $ 1,302,528 | $ 584,637 | $ 1,887,165 | $ 74,443 |

**CITY OF ARLINGTON, TEXAS**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**AS OF SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | General | Debt Service | Stadium Venue |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 60,653 | $ 53,954 | $ - |
| Closure/Post-closure restricted cash | 6,738 | - | - |
| Receivables (net of allowance for uncollectibles) | | | |
| Taxes | 2,768 | 444 | - |
| Sales taxes | 8,224 | 4,131 | - |
| Franchise fees | 6,480 | - | - |
| Special assessments | - | - | - |
| Accrued interest | 1,321 | 457 | - |
| Lease and settlement agreements | 26,805 | - | - |
| Other | 3,099 | - | - |
| Due from other funds | 5,191 | - | - |
| Due from other governments | - | - | - |
| Inventory of supplies, at cost | 1,163 | - | - |
| Prepaid expenditures | - | - | - |
| **Total Assets** | $ 122,442 | $ 58,986 | $ - |
| | | | |
| **LIABILITIES AND FUND BALANCES** | | | |
| **Liabilities:** | | | |
| Accounts payable and accrued liabilities | $ 11,156 | $ 290 | $ - |
| Retainage payable | 1 | - | - |
| Due to other funds | - | - | - |
| Deferred revenue- | | | |
| Taxes | 2,482 | - | - |
| Closure/Post-closure trust fund | 6,738 | - | - |
| Landfill | 6,630 | - | - |
| Gas lease | - | - | - |
| Lease and settlement agreements | 26,805 | - | - |
| Other | 2,063 | - | - |
| Commercial paper | - | - | - |
| **Total Liabilities** | 55,875 | 290 | - |
| | | | |
| **Fund Balances:** | | | |
| Reserved for encumbrances | 4,316 | - | - |
| Reserved for debt service | - | 58,696 | - |
| Reserved for inventory | 1,163 | - | - |
| Reserved for capital projects | - | - | - |
| Reserved for street maintenance | - | - | - |
| Reserved for utility rate case | 500 | - | - |
| Reserved for court technology | - | - | - |
| Reserved for court security | - | - | - |
| Reserved for juvenile case manager | - | - | - |
| Unreserved- | | | |
| General fund | | | |
| Designated for working capital | 16,218 | - | - |
| Designated for subsequent years' expenditures | 5,839 | - | - |
| Designated for arbitrage | 75 | - | - |
| Designated for compensated absences | 1,312 | - | - |
| Designated for other post employment benefits | 1,718 | - | - |
| Designated for future initiatives | 21,487 | - | - |
| Designated for dispatch | 422 | - | - |
| Designated for group health | 3,001 | - | - |
| Designated for business continuity | 6,889 | - | - |
| Undesignated | 3,627 | - | - |
| Special revenue funds | | | |
| Designated for working capital | - | - | - |
| Designated for hotel feasibility | - | - | - |
| Designated for capital maintenance | - | - | - |
| Designated for neighborhood grants | - | - | - |
| Designated for innovation/venture | - | - | - |
| Designated for land | - | - | - |
| Designated for reimbursement | - | - | - |
| Undesignated | - | - | - |
| **Total Fund Balances** | 66,567 | 58,696 | - |
| **Total Liabilities and Fund Balances** | $ 122,442 | $ 58,986 | $ - |

The notes to the financial statements are an integral part of this statement.

| Street Capital Projects | Other Nonmajor Funds | Total Governmental Funds |
|---|---|---|
| $ 57,908 | $ 90,641 | $ 263,156 |
| - | - | 6,738 |
| | | |
| - | 1,393 | 4,605 |
| - | 2,065 | 14,420 |
| - | - | 6,480 |
| 192 | - | 192 |
| - | - | 1,778 |
| - | - | 26,805 |
| - | 2,207 | 5,306 |
| - | - | 5,191 |
| - | 6,811 | 6,811 |
| - | 230 | 1,393 |
| - | 39 | 39 |
| $ 58,100 | $ 103,386 | $ 342,914 |
| | | |
| $ 1,130 | $ 5,213 | $ 17,789 |
| 634 | 978 | 1,613 |
| - | 5,191 | 5,191 |
| | | |
| - | - | 2,482 |
| - | - | 6,738 |
| - | - | 6,630 |
| - | 337 | 337 |
| - | - | 26,805 |
| 192 | 2,405 | 4,660 |
| 12,700 | 4,500 | 17,200 |
| 14,656 | 18,624 | 89,445 |
| | | |
| 8,822 | 28,109 | 41,247 |
| - | - | 58,696 |
| - | 230 | 1,393 |
| 34,622 | 31,555 | 66,177 |
| - | 3,841 | 3,841 |
| - | - | 500 |
| - | 391 | 391 |
| - | 55 | 55 |
| - | 311 | 311 |
| | | |
| - | - | 16,218 |
| - | - | 5,839 |
| - | - | 75 |
| - | - | 1,312 |
| - | - | 1,718 |
| - | - | 21,487 |
| - | - | 422 |
| - | - | 3,001 |
| - | - | 6,889 |
| - | - | 3,627 |
| | | |
| - | 2,045 | 2,045 |
| - | 200 | 200 |
| - | 486 | 486 |
| - | 301 | 301 |
| - | 1,775 | 1,775 |
| - | 489 | 489 |
| - | 7,510 | 7,510 |
| - | 7,464 | 7,464 |
| 43,444 | 84,762 | 253,469 |
| $ 58,100 | $ 103,386 | $ 342,914 |

**CITY OF ARLINGTON, TEXAS**
**RECONCILIATION OF THE STATEMENT OF NET ASSETS**
**OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET**
**AS OF SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | | | |
|---|---|---|---|
| **Total fund balance per balance sheet** | | | $ 253,469 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (excluding $11,541 recorded in the internal service funds). | | | 1,668,165 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | | |
| | Deferred & Unearned | Unearned | |
| Taxes | $ 2,482 | $ - | |
| Closure/Post-closure | 6,738 | - | |
| Landfill | 6,630 | 6,630 | |
| Gas lease | 337 | 337 | |
| Grant revenue | 1,878 | 2,607 | |
| Ballpark lease | 16,563 | - | |
| Settlement | 10,242 | - | |
| Other | 2,782 | - | |
| | 47,652 | 9,574 | 38,078 |
| Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | | | 27,407 |
| Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds (excluding $9,972 recorded in the internal service funds). | | | |
| Bonds payable | | $(622,440) | |
| Less: Deferred charge for issuance costs (to be amortized as interest expense) | | 6,850 | |
| Premium general obligation debt | | (11,062) | |
| Discount on bonds | | 3,699 | |
| Deferred loss refunding | | 4,805 | |
| Accrued interest payable | | (1,976) | |
| Current year accrued interest payable | | 283 | |
| Arbitrage rebate | | (75) | |
| Sales tax payable | | (502) | |
| Landfill closure | | (6,738) | |
| Compensated absences | | (26,157) | |
| Net other post-employment benefit obligation | | (17,056) | |
| Net other post-employment asset | | 192 | |
| TMRS net pension obligation | | (14,266) | |
| Capital leases | | (148) | (684,591) |
| **Net assets of governmental activities** | | | $ 1,302,528 |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | General | Debt Service | Stadium Venue | Streets Capital Projects |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 127,350 | $ 62,194 | $ - | $ - |
| Licenses and permits | 6,801 | - | - | - |
| Utility franchise fees | 25,769 | - | - | - |
| Fines and forfeitures | 13,861 | - | - | - |
| Leases, rents and concessions | 9,117 | 2,000 | - | - |
| Service charges | 5,091 | - | - | - |
| Interest revenue | 956 | 1,374 | - | 583 |
| Net increase (decrease) in fair value of investments | (147) | 2,031 | - | 10 |
| Contributions | - | - | 37,323 | 5,043 |
| Intergovernmental revenues | - | - | 3,028 | - |
| Gas lease royalty | - | - | - | - |
| Gas lease other | - | - | - | - |
| Other | 1,246 | 142 | - | 64 |
| **Total Revenues** | 190,044 | 67,741 | 40,351 | 5,700 |
| **EXPENDITURES** | | | | |
| Current- | | | | |
| General government | 33,146 | - | - | - |
| Public safety | 118,088 | - | - | - |
| Public works | 20,495 | - | - | - |
| Public health | 1,728 | - | - | - |
| Public welfare | - | - | - | - |
| Parks and recreation | 13,378 | - | - | - |
| Convention and event services | - | - | - | - |
| Capital outlay | - | - | 40,754 | 15,011 |
| Debt service- | | | | |
| Principal retirement | - | 30,975 | - | - |
| Interest and fiscal charges | - | 29,232 | - | 120 |
| **Total Expenditures** | 186,835 | 60,207 | 40,754 | 15,131 |
| Excess (deficiency) of revenues over (under) expenditures | 3,209 | 7,534 | (403) | (9,431) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from bond sale | - | - | - | 34,751 |
| Proceeds from refunding bond issue | - | 11,220 | - | 4,300 |
| Amount used for refunding bond refunding escrow | - | (12,913) | - | - |
| Bond premium | - | 1,495 | - | 966 |
| Proceeds from Certificates of Obligation | - | - | - | - |
| Transfers in | 18,992 | 2,926 | 251 | 309 |
| Transfers out | (13,915) | (251) | - | - |
| **Total Other Financing Sources and Uses** | 5,077 | 2,477 | 251 | 40,326 |
| **Net Change in Fund Balances** | 8,286 | 10,011 | (152) | 30,895 |
| **Fund Balances, October 1,** | 58,281 | 48,685 | 152 | 12,549 |
| **Fund Balances, September 30** | $ 66,567 | $ 58,696 | $ - | $ 43,444 |

The notes to the financial statements are an integral part of this statement.

| Other Nonmajor Funds | Total Governmental Funds |
|---|---|
| $ 21,223 | $ 210,767 |
| - | 6,801 |
| - | 25,769 |
| - | 13,861 |
| - | 11,117 |
| 12,972 | 18,063 |
| 1,112 | 4,025 |
| (179) | 1,715 |
| 2,473 | 44,839 |
| 23,773 | 26,801 |
| 5,421 | 5,421 |
| 550 | 550 |
| 5,677 | 7,129 |
| 73,022 | 376,858 |
| | |
| 2,453 | 35,599 |
| 8,846 | 126,934 |
| 14,998 | 35,493 |
| 1,042 | 2,770 |
| 10,969 | 10,969 |
| 10,288 | 23,666 |
| 6,321 | 6,321 |
| 23,600 | 79,365 |
| | |
| - | 30,975 |
| - | 29,352 |
| 78,517 | 381,444 |
| | |
| (5,495) | (4,586) |
| | |
| 13,124 | 47,875 |
| 500 | 16,020 |
| - | (12,913) |
| 409 | 2,870 |
| 14,685 | 14,685 |
| 11,437 | 33,915 |
| (9,496) | (23,662) |
| 30,659 | 78,790 |
| | |
| 25,164 | 74,204 |
| 59,598 | 179,265 |
| $ 84,762 | $ 253,469 |

**CITY OF ARLINGTON, TEXAS**
**RECONCILIATION OF THE STATEMENT OF REVENUES,**
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | | |
|---|---|---|
| **Net change in fund balance - total governmental funds** | | $ 74,204 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. | | 101,356 |
| Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expendirues in the governmental funds. | | (58,889) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (3,655) |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Interest on bond payoff | (1,977) | |
| Repayment of general obligation debt | 30,975 | |
| Proceeds from issuance of bonds | (65,970) | |
| Repayment of capital lease | 176 | |
| Amortization of deferred loss on bond refunding | (717) | |
| Amortization of bond premium | 993 | |
| | | (36,520) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Compensated absences | 2,273 | |
| Arbitrage | 118 | |
| Accrued interest expense | 38 | |
| Post-employment benefit obligation expense | (5,728) | |
| Post-employment benefit asset | 83 | |
| TMRS net pension obligation | (6,978) | |
| Amortization of issuance cost | (342) | |
| Sales tax | 155 | |
| | | (10,381) |
| Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities. | | (1,802) |
| **Change in net assets of governmental activities** | | $ 64,313 |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Business-type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Non-Major Fund Storm Water Utility | Total | Governmental Activities- Internal Service Funds |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and cash equivalents | $ 12,452 | $ 10,705 | $ 23,157 | $ 21,076 |
| Investments | - | - | - | 4,065 |
| Receivables (net of allowances for uncollectibles): | | | | |
| Trade accounts | 8,427 | 673 | 9,100 | 213 |
| Unbilled trade accounts | 7,412 | 534 | 7,946 | - |
| Accrued interest | - | - | - | 13 |
| Other | 36 | - | 36 | - |
| Inventory of supplies, at cost | 420 | - | 420 | 72 |
| Subtotal | 28,747 | 11,912 | 40,659 | 25,439 |
| Restricted Assets: | | | | |
| Bond contingency-cash and cash equivalents | 8,353 | - | 8,353 | - |
| Capital construction-cash and cash equivalents | 17,209 | - | 17,209 | - |
| **Total Current Assets** | 54,309 | 11,912 | 66,221 | 25,439 |
| **Non-Current Assets:** | | | | |
| Restricted Assets: | | | | |
| Bond contingency- | | | | |
| Investments | 3,115 | - | 3,115 | - |
| Accrued interest | 29 | - | 29 | - |
| Capital construction- | | | | |
| Investments | 28,841 | - | 28,841 | - |
| Assessments receivable | 4 | - | 4 | - |
| Meter deposit investments | 4,853 | - | 4,853 | - |
| Capital Assets: | | | | |
| Land | 6,696 | - | 6,696 | - |
| Buildings and improvements | 2,833 | - | 2,833 | 467 |
| Water and sewer system | 681,348 | - | 681,348 | - |
| Machinery and equipment | 11,219 | - | 11,219 | 40,316 |
| Drainage system | - | 79,845 | 79,845 | - |
| Construction-in-progress | 70,925 | 2,578 | 73,503 | - |
| Accumulated depreciation | (219,635) | (28,286) | (247,921) | (29,242) |
| Total Capital Assets Net of Accumulated Depreciation | 553,386 | 54,137 | 607,523 | 11,541 |
| **Total Noncurrent Assets** | 590,228 | 54,137 | 644,365 | 11,541 |
| **Total Assets** | $ 644,537 | $ 66,049 | $ 710,586 | $ 36,980 |

The notes to the financial statements are an integral part of this statement.

(continued)

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**SEPTEMBER 30, 2010**
**(CONTINUED)**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Business-type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Non-Major Fund Storm Water Utility | Total | Governmental Activities- Internal Service Funds |
| **LIABILITIES** | | | | |
| **Current Liabilities:** | | | | |
| Accounts payable and accrued liabilities | $ 3,387 | $ 116 | $ 3,503 | $ 517 |
| Accrued compensated absences | 105 | - | 105 | 8 |
| Revenue bonds payable from unrestricted assets | 6,861 | - | 6,861 | - |
| Capital lease obligation | - | - | - | 191 |
| **Current Liabilities Payable From Restricted Assets:** | | | | |
| Accounts payable and accrued liabilities | 1,092 | - | 1,092 | - |
| Retainage | 2,217 | 10 | 2,227 | - |
| Accrued interest | 1,327 | - | 1,327 | - |
| Estimated claims payable | - | - | - | 5,216 |
| Revenue bonds payable | 3,138 | - | 3,138 | - |
| Meter deposits | 4,854 | - | 4,854 | - |
| **Total Current Liabilities** | 22,981 | 126 | 23,107 | 5,932 |
| **Noncurrent Liabilities:** | | | | |
| Estimated claims payable | - | - | - | 4,269 |
| Compensated absences | 1,638 | 168 | 1,806 | 288 |
| Revenue bonds payable from unrestricted assets | 100,120 | - | 100,120 | - |
| **Total Noncurrent Liabilities** | 101,758 | 168 | 101,926 | 4,557 |
| **Total Liabilities** | 124,739 | 294 | 125,033 | 10,489 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 487,100 | 54,127 | 541,227 | 11,350 |
| Restricted for debt service | 10,140 | - | 10,140 | - |
| Unrestricted | 22,558 | 11,628 | 34,186 | 15,141 |
| **Total Net Assets** | $ 519,798 | $ 65,755 | $ 585,553 | $ 26,491 |
| Reconciliation to government-wide statements of net assets: | | | | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | (916) | |
| Net assets of business-type activities | | | $ 584,637 | |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Business-type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Non-Major Fund Storm Water Utility | Total | Governmental Activities- Internal Service Funds |
| **Operating Revenues:** | | | | |
| Water sales | $ 57,459 | $ - | $ 57,459 | $ - |
| Sewer service | 44,890 | - | 44,890 | - |
| Storm water fee - commercial | - | 3,976 | 3,976 | - |
| Storm water fee - residential | - | 4,726 | 4,726 | - |
| Service charges | - | - | - | 30,866 |
| Sundry | 5,451 | - | 5,451 | 198 |
| **Total Operating Revenues** | 107,800 | 8,702 | 116,502 | 31,064 |
| **Operating Expenses:** | | | | |
| Purchase of water | 13,676 | - | 13,676 | - |
| Purchase of sewage treatment | 20,873 | - | 20,873 | - |
| Salaries and wages | 11,286 | 1,190 | 12,476 | 2,177 |
| Employees' retirement | 1,799 | 193 | 1,992 | 355 |
| Supplies | 2,955 | 41 | 2,996 | 3,484 |
| Maintenance and repairs | 2,780 | 172 | 2,952 | 2,790 |
| Utilities | 3,162 | 4 | 3,166 | 458 |
| Claims (net of adjustments) | - | - | - | 19,420 |
| Legal and professional | - | - | - | 1,178 |
| Depreciation | 13,129 | 1,659 | 14,788 | 3,898 |
| Miscellaneous services | 4,199 | 758 | 4,957 | 3,445 |
| **Total Operating Expenses** | 73,859 | 4,017 | 77,876 | 37,205 |
| **Operating Income (Loss)** | 33,941 | 4,685 | 38,626 | (6,141) |
| **Nonoperating Revenues (Expenses):** | | | | |
| Interest revenue | 791 | 104 | 895 | 220 |
| Net increase (decrease) in the fair value of investments | (44) | 3 | (41) | (6) |
| Gain on sale of assets | - | - | - | 138 |
| Interest expense and fiscal charges | (1,170) | - | (1,170) | (26) |
| **Total Nonoperating Revenues (Expenses)** | (423) | 107 | (316) | 326 |
| Income (loss) before transfers and contributions | 33,518 | 4,792 | 38,310 | (5,815) |
| Contributions in aid of construction | 1,388 | - | 1,388 | - |
| Transfers in | - | - | - | 4,440 |
| Transfers out | (13,173) | (520) | (13,693) | (1,000) |
| **Change in Net Assets** | 21,733 | 4,272 | 26,005 | (2,375) |
| **Total Net Assets, October 1** | 498,065 | 61,483 | 559,548 | 28,866 |
| **Total Net Assets, September 30** | $ 519,798 | $ 65,755 | $ 585,553 | $ 26,491 |

| | |
|---|---|
| Net change in net assets - total proprietary funds | $ 26,005 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | (573) |
| Change in net assets of business-type activities | $ 25,432 |

The notes to the financial statements are an integral part of this statement.

## CITY OF ARLINGTON, TEXAS
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## FOR THE YEAR ENDED SEPTEMBER 30, 2010
## (AMOUNTS EXPRESSED IN THOUSANDS)

| | Business-type Activities- Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Sewer | Non-Major Fund Storm Water Utility | Total | Governmental Activities- Internal Service Funds |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Cash received from customers | $ 106,094 | $ 8,438 | $ 114,532 | $ 30,998 |
| Cash payments to suppliers | (48,454) | (933) | (49,387) | (30,835) |
| Cash payments to employees | (13,128) | (1,384) | (14,512) | (2,505) |
| **Net Cash Provided By (Used For) Operating Activities** | 44,512 | 6,121 | 50,633 | (2,342) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | | |
| Transfers in | - | - | - | 4,440 |
| Transfers out | (13,173) | (520) | (13,693) | (1,000) |
| **Net Cash Provided By (Used For) Noncapital Financing Activities** | (13,173) | (520) | (13,693) | 3,440 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | |
| Acquisition and construction of capital assets | (28,995) | (1,514) | (30,509) | (2,165) |
| Principal payments on capital lease | - | - | - | (236) |
| Interest payments on capital lease | - | - | - | (26) |
| Proceeds from sales of capital assets | - | - | - | 186 |
| Proceeds from issuance of long-term debt | 31,215 | - | 31,215 | - |
| Repayment of long-term debt | (21,503) | - | (21,503) | - |
| Interest payment long-term debt | (4,254) | - | (4,254) | - |
| **Net Cash Used For Capital And Related Financing Activities** | (23,537) | (1,514) | (25,051) | (2,241) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Proceeds from interest earnings | 916 | 104 | 1,020 | 231 |
| Net increase (decrease) in the fair value of investments | (44) | 3 | (41) | (6) |
| Purchase of investments | (41,053) | - | (41,053) | (4,000) |
| Maturities/sales of investments | 31,178 | - | 31,178 | 3,034 |
| **Net Cash Provided By (Used For) Investing Activities** | (9,003) | 107 | (8,896) | (741) |
| **Net Increase (Decrease) In Cash And Cash Equivalents** | (1,201) | 4,194 | 2,993 | (1,884) |
| **Cash And Cash Equivalents, October 1** | 39,215 | 6,511 | 45,726 | 22,960 |
| **Cash And Cash Equivalents, September 30** | $ 38,014 | $ 10,705 | $ 48,719 | $ 21,076 |
| **Reconciliation of operating income to net cash provided by (used for ) operating activities:** | | | | |
| Operating income (Loss) | $ 33,941 | $ 4,685 | $ 38,626 | $ (6,141) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 13,129 | 1,659 | 14,788 | 3,898 |
| Interest earnings capitalized | (98) | - | (98) | - |
| Interest expense capitalized | 2,832 | - | 2,832 | - |
| Amortization of bond premium | 262 | - | 262 | - |
| Amortization of deferred loss on bond refunding | (164) | - | (164) | - |
| Provision for bad debts | (231) | 10 | (221) | - |
| (Increase) decrease in- | | | | |
| Receivables | (1,243) | (264) | (1,507) | (66) |
| Inventory of supplies | 40 | - | 40 | 11 |
| Prepaid expenses | - | - | - | 154 |
| Increase (decrease) in- | | | | |
| Accounts payable and accrued liabilities | (3,808) | 32 | (3,776) | 27 |
| Estimated claims payable | - | - | - | (263) |
| Retainage payable | (12) | - | (12) | - |
| Meter deposits | (34) | - | (34) | - |
| Accrued compensated absences | (102) | (1) | (103) | 38 |
| Total adjustments | 10,571 | 1,436 | 12,007 | 3,799 |
| **Net Cash Provided By Operating Activities** | $ 44,512 | $ 6,121 | $ 50,633 | $ (2,342) |
| **Noncash investing, capital, and financing activities:** | | | | |
| Contributions of capital assets from developers | 1,388 | - | 1,388 | - |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Pension Trust Funds | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ - | $ 7,122 |
| Investments | | |
| Money market fund | 27,312 | - |
| Corporate bonds | 1,559 | - |
| Fixed income mutual bond funds | 11,756 | - |
| Common stock mutual bond funds | 48,674 | 153 |
| Balanced mutual funds | 13,343 | - |
| Participant borrowing | 5,041 | - |
| Self directed brokerage accounts | 2,506 | - |
| Total Investments | 110,191 | 153 |
| **Total Assets** | 110,191 | $ 7,275 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | - | $ 7,122 |
| IRC 401 deferred compensation plans | - | 153 |
| **Total Liabilities** | - | $ 7,275 |
| **NET ASSETS** | | |
| Held in trust for pension benefits | $ 110,191 | |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**
**(AMOUNTS EXPRESSED IN THOUSANDS)**

| | Pension Trust Funds |
|---|---|
| **ADDITIONS** | |
| Employer contributions | $ 2,945 |
| Employee contributions | 6,027 |
| Net appreciation in fair value of investments | 10,598 |
| **Total Additions** | 19,570 |
| | |
| **DEDUCTIONS** | |
| Benefits | 8,939 |
| Plan administration | 69 |
| **Total Deductions** | 9,008 |
| | |
| **Increase in Net Assets** | 10,562 |
| | |
| **Net Assets, October 1** | 99,629 |
| **Net Assets, September 30** | $ 110,191 |

The notes to the financial statements are an integral part of this statement.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Arlington, Texas (the "City") was incorporated April 19, 1884 and the city charter was adopted January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, and general administrative services.

The accompanying financial statements of the City include all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

### A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City’s governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City’s statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City’s capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City’s governmental funds is similar to that previously presented in the City’s financial statements, although the format of financial statements has been modified by GASB Statement No. 34. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management’s Discussion and Analysis which includes an analytical overview of the City’s financial activities. In addition, a budgetary comparison statement is presented that compares the originally adopted and final General Fund budget with actual results.

### B. Reporting Entity

The City is governed by an elected mayor and eight-member council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

Arlington Property Finance Authority, Inc.

Arlington Property Finance Authority, Inc. (the “APFA”) provides the City with a defined and funded self-insurance program for general and automotive liability. The financial statements of APFA, a component unit, have been "blended" with those of the City because its board of directors is appointed by the City Council, and the City management maintains significant continuing management oversight with respect to APFA's policies. Additionally, APFA provides services entirely to the City and its employees.

Arlington Convention Center Development Corporation

Arlington Convention Center Development Corporation (the “ACCDC”) was formed to encourage and assist with planning, designing, constructing and maintaining a convention center complex or hotel facility. The City Council serves as the board of directors. The ACCDC has had no transactions and therefore does not have financial statements.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Arlington Sports Facilities Development Authority, Inc.

The Arlington Sports Facilities Development Authority, Inc. (the "ASFDA") promotes economic development within the city. ASFDA’s board of directors is appointed by the City Council. The ASFDA's management is designated by the City, and City employees are responsible for the ASFDA's daily operations. The City is financially accountable for the ASFDA's activities. Separate ASFDA component unit financial statements are not prepared. In 2010 the City dissolved the ASFDA and all assets became assets of the City.

Arlington Housing Authority

The Arlington Housing Authority (the "AHA") provides low income housing assistance within the City. The AHA’s board of commissioners is appointed by the Mayor. The AHA's management is designated by the City. The employees who are responsible for daily operations of the AHA are City employees. The City has financial accountability over the AHA's activities. The audited financial statements of the AHA are prepared in accordance with accounting principles generally accepted in the United States. Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc. (the "ACVB") promotes tourism within the City. The ACVB’s board of directors is appointed by the City Council. The primary source of revenue for the ACVB is a professional services support contract with the City; therefore, the City has financial accountability over the ACVB's activities. Separate ACVB component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

Arlington Tomorrow Foundation

The Arlington Tomorrow Foundation (The “ATF”) oversees an endowment fund created by natural gas revenues to be used for the benefit of the Arlington community. The ATF’s board of directors is appointed by the Mayor. The ATF’s management is designated by the City, and City employees are responsible for the daily activities of the ATF; accordingly, the City has financial accountability over ATF's activities. Separate ATF component unit financial statements are not prepared.

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation (the "AHFC") provides financial assistance to low income, multi-family residences and single-family homebuyers within the City. The AHFC's board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. Separate AHFC component unit financial statements are not prepared.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation (the "AIDC") promotes industrial and commercial development within the City. The AIDC's board of directors is appointed by the City Council. The AIDC's management is designated by the City, and City employees are responsible for the daily activities of the AIDC; accordingly, the City has financial accountability over AIDC's activities. Separate AIDC component unit financial statements are not prepared.

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. The exception is that inter-fund services provided and used are not eliminated. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All franchise fees are based on gross receipts and are included in general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property and sales taxes, franchise fees, intergovernmental revenues, interest income, etc.).

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, Debt Service Fund, Stadium Venue Fund, and Street Capital Projects Fund. The enterprise funds are made up of the Water and Stormwater Drainage funds. GAAP sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in summary form as part of the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.). Interfund services provided and used are not eliminated in the consolidation.

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Agency funds, however, report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers taxes and other revenue to be available if they are collected within 60 days of the end of the current fiscal period, while grants typically are received within 90 days. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, which are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. The City has agreements with various entities in which a portion of the sales tax is rebated. The sales tax revenue is reported net of the rebate. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

Business-type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the

Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.
The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.

b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

c. Stadium Venue Fund, a capital project fund, accounts for the planning, acquisition, establishment, development, and construction of the Dallas Cowboys Complex Development Project. Funds are provided primarily through bond sales and interest earnings.

d. Street Capital Projects Fund accounts for the purchase of rights of way and land, construction of streets and related facilities, and to account for various other projects related to street construction. Funds are provided primarily through bond sales, interest earnings, and impact fees.

e. Other Governmental Funds is a summarization of all of the nonmajor governmental funds, including capital project and special revenue funds. It should be noted that in fiscal year 2010, the City reclassified the minor Infrastructure Maintenance Reserve Fund from a special revenue fund to a capital projects fund.

2. Enterprise Funds:

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The City's Enterprise Funds are the Water and Sewer Fund and the Storm Water Utility Fund. The Water and Sewer Fund accounts for the administration, operation and maintenance of the water and sewer utility system, as well as billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund. The City's solid waste function is contracted out. The billings for this function are done by the City as a conduit for the contractor. The fee for this service is accounted for in the Water fund, while revenues from landfill fees are accounted for in the General Fund. The Storm Water Utility Fund accounts for the design, construction and maintenance of the City's storm water drainage systems.

3. Other Fund Types:

The City additionally reports for the following Fund types:

a. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. These services include printing, mailing and duplicating; fleet services; self insurance; technology services; workers' compensation insurance; and group health insurance.

b. Agency Funds are used to account for assets held by the City in an agency capacity for payroll related benefits, escheat property for the state, and other assets held for individuals, local law enforcement agencies and developers.

c. Pension Trust Funds are used to account for the accumulation of resources to be used for the retirement and disability benefit payments to qualified City employees and for thrift savings plans for City employees.

E. Cash, Cash Equivalents and Investments

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds and component units except the ASFDA, the Trust Funds, and the AHA, all of which maintain separate investments. Each fund's portion of this pool is allocated through its cash and cash equivalent account on the balance sheet. In addition, certain investments are separately held by several of the City's funds. Interest is allocated on a monthly basis to all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which are purchased with original maturities at the time of purchase of three months or less are reported as cash equivalents.

The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreement.

In accordance with GASB Statement No. 31, investments with maturities greater than one year at time of purchase are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties.

F. Inventories and Prepaid Items

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

G. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings | 45 - 50 |
| Improvements other than buildings | 20 - 40 |
| Equipment | 4 - 10 |
| Drainage improvements | 35 - 50 |
| Meters | 10 |
| Streets | 20 - 25 |
| Storm/sanitary sewer | 50 |
| System infrastructure | 20 - 50 |

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2010, approximately $2,733,000 of interest costs, net of $98,000 of interest earned, were capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Interest expensed (net of capitalized interest) and interest earned in fiscal 2010 for the Water and Sewer Fund amounted to approximately $1,170,000 and $791,000, respectively.

I. Arbitrage Liability

The City accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the federal government every five years; however, the City calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund types, as applicable, on the accrual basis and as a reduction of interest income on the invested debt proceeds.

J. Compensated Absences

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 20 days per year for 15 years of service and over. On specified anniversary dates, additional days are credited, up to certain amounts, according to length of service. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (180 for fire fighters). The full amount of accumulated sick pay up to 120 days maximum is paid if termination is through retirement or death.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund is typically used to liquidate the liability for governmental activities' compensated absences.

K. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums/ discounts and issuance costs, are deferred and amortized over the life of the bonds using the effective interest method and straight line method, respectively. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, as other financing sources or uses or expenditures at the time of the debt issuance. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. New Accounting Pronouncements

During fiscal year 2010, the City adopted the following Governmental Accounting Standards Board ("GASB") Statements:

Statement No. 51, *Accounting and Financial Reporting for Intangible Asset.* This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. This pronouncement had no impact on current financial statements.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government. This pronouncement had no significant impact on current financial statements.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This pronouncement had no impact on current financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which is effective for the City beginning in fiscal year 2011. This Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans,* which is effective for the City beginning in fiscal year 2012. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans and clarifies when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers.

Statement No. 59, *Financial Instruments Omnibus,* which is effective for the City beginning in fiscal year 2011. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for the City beginning in fiscal year 2013. This Statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, which is effective for the City beginning in fiscal year 2013. This Statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the City beginning in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

The City has not yet determined the impact of implementing the above new pronouncements.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Budgetary Data

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as expenditures on the budgetary basis and interdepartmental expenses which are eliminated. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The schedules comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other revenue and expenditure items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the fund level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2010, there were budget amendments in the Arlington Tomorrow Aviation Gas Fund in the amount of $100,000 by appropriating interest earned on the gas lease corpus for the purpose of funding the construction costs for the Airport Terminal Building. The Street Maintenance Fund was increased by $2,000,000 by appropriating additional amounts available from the fund's FY09 year-end balance, to cover increased funding for street repairs and maintenance. The authorized appropriation in the Fleet Services Funds was increased by $1,000,000 by recognizing available fund balances from prior years' savings to fund additional fleet vehicle replacements, in order to avoid potential cost increases in the maintenance contract due to mileage and age of existing vehicles.

The Budgetary Comparison Schedule presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exceptions:

> The portion of ad valorem tax revenues in the General Fund from "rolled back" tax payments (taxes, up to five years back, on properties previously taxed at special use exemption values and currently changed to full values) are excluded from the budgetary basis tax revenues and from the general governmental expenditures.
>
> Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures, but are eliminated from actual revenues and expenditures.

General Fund encumbrances are added to the actual expenditures for budgetary comparison. Budgetary data for the project-length Special Revenue Funds and Capital Projects Funds have not been presented. Receipts of revenues are not estimable for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

**B. Excess of expenditures over appropriations**

For the year ended September 30, 2010, the Stormwater Utility fund, supplies expenses exceeded budget by $64,000. The overexpenditures were funded by a reduction in other expenditure categories.

**C. Deficit fund equity**

Several of the special revenue funds account for expenditure driven grants. The funds make expenditures and then file for reimbursement from the granting agency. Reimbursements not received within sixty days of year end are deferred revenue, creating a deficit fund balance. Within the other special revenue and other capital project funds are expenditure driven funds with end of year deficit fund balances. Their respective deficits are:

North Texas Council of Governments-$1,347,000
Disaster Assistance-$4,000

These fund balances will all be replenished in 2011 from reimbursements funded by Federal and State Grants.

In addition, the Police capital projects fund has a deficit balance of $105,000. This deficit will be funded through the issuance of permanent improvement bonds and certificates of obligation.

## III. DETAILED NOTES ON ALL FUNDS

### 1. CASH, CASH EQUIVALENTS AND INVESTMENTS

State statutes, the City's Investment Policy and the City's Depository Agreement govern the investments of the City. The City is authorized to invest in United States Treasuries, its agencies or instrumentalities, other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities, obligations of Texas and its agencies, counties and cities, and other political subdivisions rated not less than AA, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements, Guaranteed Investment Contracts, commercial paper rated A-1+, P-1 with an underlying long-term rating of AA or better, government pools and money market funds consisting of any of these securities listed. Major provisions of the City's investment policy include the following: depositories must be FDIC-insured institutions, depositories must fully insure or collateralize all deposits, and investments must be purchased in the name of the City and be delivered to the City's agent for safekeeping.

Deposits - At September 30, 2010, the carrying amount of the City's demand deposits was $34,856,000 (bank balance, $39,368,000). The $34,856,000 balance consisted of a $34,490,000 balance in City Funds and a $366,000 balance in Component Unit Funds. The balance in cash on hand was $70,000 at year end.

Investments – The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost.
The City is the beneficiary of a Closure/Post Closure Trust in the amount of $6,738,000. This amount is recorded as an investment in trust and as a landfill closure accrued liability. Under the landfill lease agreement, the lessee must maintain a trust equal to the amount of the City's closure/post closure liability. The lessee contributed $5,154,000 at closing and makes annual contributions of approximately $600,000. The funds in this trust are to be used solely by the City to pay for closure and post closure expenses as they are incurred.

As of September 30, 2010, the City had the following cash, cash equivalents and investments (amounts in thousands):

| **City Funds** | **Fair Value** | **Weighted average Maturity (in days)** |
|---|---|---|
| Demand Deposits | $34,490 | n/a |
| Cash on Hand | 70 | n/a |
| Other Cash in Bank | (55) | n/a |
| General Operating/Internal Pool | 280,594 | 529 |
| Dallas Cowboy Complex Development Project | 72 | 1 |
| Debt Service and Working Capital Reserve | 6,604 | 947 |
| Dallas Cowboy Complex Development Project Debt Service Reserve | 47,985 | 1,232 |
| Closure/Post-closure trust fund | 6,738 | 1 |
| Self-Insurance | 4,065 | 934 |
| **Total City** | **$380,563** | |

| **Fiduciary Funds** | **Fair Value** | **Weighted average Maturity (in days)** |
|---|---|---|
| Agency Funds-Internal Pool | $7,137 | 529 |
| Agency Funds- Cash in Bank | (15) | n/a |
| Agency Funds- Mutual Funds | 153 | n/a |
| Pension Trust Funds – Money Market Fund | 27,312 | n/a |
| Pension Trust Funds – Corporate Bonds | 1,559 | n/a |
| Pension Trust Funds- Mutual Funds | 81,320 | n/a |
| **Total Fiduciary Funds** | **$117,466** | |

| **Component Units** | **Fair Value** | **Weighted average Maturity (in days)** |
|---|---|---|
| Demand Deposits | $366 | n/a |
| Cash in Bank | 4,619 | n/a |
| ATF – Internal Pool | 11,621 | 2,155 |
| ATF – Investments | 56,966 | 529 |
| AHA – Bank Cert. of Deposit | 3,013 | 295 |
| **Total Component Units** | **$76,585** | |
| **Total Entity – Cash, Cash Equivalents and Investments** | **$574,614** | |

*Interest Rate Risk*. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum maturity of any single investment and the weighted average maturity of combined investments by fund groups. The following table lists the fund groups authorized in the City's investment policy and the maximum maturity and maximum weighted average maturity ("WAM"):

| Fund | Maximum Maturity | Maximum WAM |
|---|---|---|
| General Operating | 3 Years | 18 Months |
| Capital Project | 3 Years | 18 Months |
| Working Capital Reserve | 5 Years | 4 Years |
| Dallas Cowboy Complex Development Debt Service Reserve | 7 Years | 7 Years |
| Debt Service Sinking &Debt Service | 7 Years | 7 Years |
| Self-Insurance | 7 Years | 5 Years |
| Closure/Post-closure Trust Fund | 10 Years | 8 Years |

*Credit Risk*. In accordance with its investment policy, the City minimizes credit risk by limiting investments to the safest type of investments. The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's investors Service and AAA by Standard and Poor's. The Arlington Housing Authority's investments in the Federal Home Loan Bank bond was rated AAA by Moody's.

*Concentration of Credit Risk*. The City's investment policy places the following limits on the amount the City may invest in any one issuer. All securities are AAA rated.

| Security | % of Portfolio |
|---|---|
| United States Treasury | 100% |
| U.S. Agencies and Instrumentalities | 30%/Issuer |
| Other Obligations guaranteed by U.S. | 5% |
| Obligations of Texas and its subdivisions | 5%/Issuer |
| Certificates of Deposit | 20% |
| Repurchase Agreements | 15%/counterparty |
| Commercial Paper | 5%/Issuer – 20% |
| Money Market Mutual Fund | 15%/MMF |
| Local Government Investment Pools | 25%/pool |

As of September 30, 2010 the City's overall portfolio consisted of:

| City Funds | Fair Value |
|---|---|
| Demand Deposits | **$34,490** |
| Cash on Hand | **70** |
| Cash in Bank | **(55)** |
| Federal Home Loan Bank Bonds | **83,732** |
| Federal Home Loan Mortgage Corp. Bonds | **66,938** |
| Federal National Mortgage Association Bonds | **109,124** |
| Federal Farm Credit Bonds | **32,629** |
| Farmer Mac | **8,751** |
| Wells Fargo Money Market | **21,075** |
| TexPool | **7,018** |
| TexasDaily | **123** |
| TexStar | **96** |
| Bank of Texas Cert. of Deposit | **2,349** |
| CitiCorp | **14,223** |
| **Total City** | **$380,563** |

| Fiduciary Funds | Fair Value |
|---|---|
| Agency Funds - Cash in Bank | **$(15)** |
| Agency Funds - Mutual Funds | **153** |
| Agency Funds - Federal Home Loan Bank | **1,460** |
| Agency Funds - Federal Home Loan Mortgage Corp. | **1,626** |
| Agency Funds - Federal National Mortgage Association | **2,674** |
| Agency Funds – Federal Farm Credit | **579** |
| Agency Funds – Farmer Mac | **214** |
| Agency Funds - TexPool | **172** |
| Agency Funds - TexasDaily | **3** |
| Agency Funds - TexStar | **2** |
| Pension Trust Funds - Money Market Fund | **27,312** |
| Pension Trust Funds - Corporate Bonds | **1,559** |
| Pension Trust Funds - Mutual Funds | **81,320** |
| Bank of Texas Cert. of Deposit | **58** |
| Compass Bank Cert. of Deposit | **349** |
| **Total Fiduciary Funds** | **$117,466** |

| Component Units | Fair Value |
|---|---|
| Demand Deposits | **$366** |
| Cash in Bank | **4,619** |
| ATF - Federal Home Loan Bank | **31,162** |
| ATF - Federal Home Loan Mortgage Corp. | **2,648** |
| ATF - Federal National Mortgage Association | **4,354** |
| ATF - Farmer Mac | **5,975** |
| ATF - Federal Farm Credit | **23,498** |
| ATF - TexPool | **280** |
| ATF - TexasDaily | **5** |
| ATF - TexStar | **4** |
| AHA – Bank Cert. of Deposit | **3,013** |
| Bank of Texas Cert. of Deposit | **94** |
| CitiCorp | **567** |
| **Total Component Units** | **$76,585** |
| **Total Entity – Cash, Cash Equivalents and Investments** | **$574,614** |

*Custodial Credit Risk.* State statutes require that all City deposits in financial institutions be fully insured by the Federal Deposit Insurance Corporation (FDIC) collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits or by a Letter of Credit from a Federal Agency. A $2.5 million CD with Bank of Texas is part of the CDARS program and is distributed between thirteen banks and is fully insured by the FDIC.

The City's investments in public funds investment pools include investments in TexPool, TexasDaily and TexStar. These are public funds investment pools operating as an SEC 2a-7 like pool in full compliance with the Public Funds Investment Act. TexPool, TexasDaily and TexStar are rated as AAA money market funds by Standard & Poor's. As of September 30, 2010, the City's investment in TexPool was $7,470,000 with a market value of $7,470,000. The City's investment in TexasDaily was $131,000 with a market value of $131,000 and the City's investment in TexStar was $102,000 with a market value of $102,000.

## 2. PROPERTY TAXES

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalties and interest are charged at 7 percent on delinquent taxes beginning February 1 and increase each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2009, upon which the original FY10 levy was based, was $18,251,104,674.

City property tax revenues are recorded as receivables and deferred revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2010, the City had a tax rate of $0.6480 ($0.4330 for general government and $0.2150 for debt service) per $100 assessed valuation with a tax margin of $1.8520 per $100 valuation based upon a maximum ad valorem tax of $2.50 per $100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately $338,010,459 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $18,251,104,674.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

## 3. DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT

In 2004, the voters authorized the City to provide the planning, acquisition, construction and financing for the Dallas Cowboys Complex Development Project (the "Complex"), approving an increase in the City's sales tax of one-half cent, a two percent increase in the hotel occupancy tax and a five percent short-term motor vehicle rental tax. The Complex was completed in July 2009 and is a multi-functional enclosed facility with a retractable roof and seating for approximately 85,000. The final cost of the project was $1.1 billion and in accordance with the funding and closing agreement, the City paid a portion of the projected costs, $325 million, to build the Complex.

Stadium Lease - As part of the Funding Agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (the "Tenant") for lease of the Complex. The Lease Agreement calls for an initial term of 30 years. Monthly lease payments of $166,666.67 began in June, 2009 for an annualized rental rate of $2 million per year. The Lease Agreement contains several renewal options at guaranteed annual rental payments of $1 million per year for the first 10 years and $1.25 million per year for all remaining renewals. The Lease Agreement also provides the Tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the Tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the Tenant, capped at $500 thousand per year. There was no such naming rights revenue for the latest fiscal year. The lease is accounted for as an operating lease. The cost of the stadium is $1,109,775,000 with an accumulated depreciation of $22,286,324.

City Debt – In 2005, the City issued $297,990,000 Dallas Cowboy Complex Special to fund the City's share of the project costs for the Complex, including $164,265,000 Dallas Cowboys Complex Special Obligation Tax-Exempt Special Tax Bonds, Series 2005B (the "Multi-Modal Bonds"). In December, 2008 the City issued $112,185,000 in Special Tax Revenue Bonds to refund $104,265,000 of the Series 2005B bonds and in May 2009 issued $62,820,000 to refund the remaining $60,000,000 of the Series 2005B bonds.

Conduit Debt - In 2006, $147,865,000 Dallas Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 (the "Dallas Cowboys Admission and Parking Taxes Revenue Bonds") with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P., were issued to fund a portion of the Dallas Cowboy's funding for the Complex. The Dallas Cowboys Admission and Parking Taxes Revenue Bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt. At September 30, 2010, outstanding conduit debt was $143,355,000.

Franchise - The City and the Dallas Cowboys Football Club, LTD. entered into a franchise agreement that requires the Dallas Cowboys NFL football franchise to remain in Arlington and to play all of the team's home games in the Complex for a minimum of 30 years after the Complex opens. If the lease renewal options are exercised, the Cowboys' obligation to stay in Arlington is extended for the renewal term.

## 4. RECEIVABLES

Receivables at September 30, 2010 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (amounts expressed in thousands):

| | General | Debt Service | Storm Water Utility | Water & Sewer | Street Capital Projects | Other Nonmajor Governmental Funds | Internal Service Funds | Total |
|---|---|---|---|---|---|---|---|---|
| Receivables: | | | | | | | | |
| Taxes | $ 8,441 | $ 444 | $ - | $ - | $ - | $ 1,393 | $ - | $ 10,278 |
| Franchise Fees | 6,480 | - | - | - | - | - | - | 6,480 |
| Trade Accounts | - | - | 723 | 10,808 | - | - | 213 | 11,744 |
| Unbilled Trade Accounts | - | - | 534 | 7,721 | - | - | - | 8,255 |
| Special Assessments | - | - | - | - | 192 | - | - | 192 |
| Sales Taxes | 8,224 | 4,131 | - | - | - | 2,065 | - | 14,420 |
| Lease and settlement agreements | 26,805 | - | - | - | - | - | - | 26,805 |
| Accrued Interest | 1,321 | 457 | - | - | - | - | 13 | 1,791 |
| Other | 3,099 | - | - | 36 | - | 2,207 | - | 5,342 |
| Gross Receivables | 54,370 | 5,032 | 1,257 | 18,565 | 192 | 5,665 | 226 | 85,307 |
| Less: Allowance for Uncollectibles | (5,673) | - | (50) | (2,690) | - | - | - | (8,413) |
| Net total Receivables | $ 48,697 | $ 5,032 | $ 1,207 | $ 15,875 | $ 192 | $ 5,665 | $ 226 | $ 76,894 |

## 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

(Amounts expressed in thousands)

| | Balance at Beginning Of Year | Additions | Retirements | Balance at End Of Year |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 204,698 | $ 3,709 | $ - | $ 208,407 |
| Construction in progress-other | 128,913 | 39,958 | (43,002) | 125,869 |
| Construction in progress-stadium | - | 40,754 | (40,754) | - |
| Total capital assets, not being depreciated | 333,611 | 84,421 | (83,756) | 334,276 |
| Capital assets, being depreciated: | | | | |
| Buildings and Improvements | 1,195,432 | 51,271 | (2,141) | 1,244,562 |
| Equipment | 73,469 | 5,423 | (1,351) | 77,541 |
| Infrastructure | 738,414 | 20,517 | - | 758,931 |
| Total capital assets, being depreciated | 2,007,315 | 77,211 | (3,492) | 2,081,034 |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | 95,813 | 28,930 | (1,208) | 123,535 |
| Equipment | 50,246 | 9,458 | (1,302) | 58,402 |
| Infrastructure | 529,214 | 24,453 | - | 553,667 |
| Total accumulated depreciation | 675,273 | 62,841 | (2,510) | 735,604 |
| Total capital assets, being depreciated, net | 1,332,042 | 14,370 | (982) | 1,345,430 |
| Governmental activities capital assets, net | $ 1,665,653 | $ 98,791 | $ (84,738) | $ 1,679,706 |

| | Balance at Beginning Of Year | Additions | Retirements | Balance at End Of Year |
|---|---|---|---|---|
| **Business-type activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 6,695 | $ 1 | $ - | $ 6,696 |
| Construction in progress | 91,694 | 30,344 | (48,535) | 73,503 |
| Total capital assets, not being depreciated | 98,389 | 30,345 | (48,535) | 80,199 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 2,833 | - | - | 2,833 |
| Drainage System | 77,221 | 2,624 | - | 79,845 |
| Water and sewer system | 633,984 | 47,364 | - | 681,348 |
| Machinery and equipment | 11,121 | 98 | - | 11,219 |
| Total capital assets, being depreciated | 725,159 | 50,086 | - | 775,245 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,127 | 57 | - | 1,184 |
| Drainage System | 26,628 | 1,659 | - | 28,287 |
| Water and sewer system | 195,380 | 12,888 | - | 208,268 |
| Machinery and equipment | 9,999 | 184 | - | 10,183 |
| Total accumulated depreciation | 233,134 | 14,788 | - | 247,922 |
| Total capital assets, being depreciated, net | 492,025 | 35,298 | - | 527,323 |
| Business-type activities capital assets, net | $ 590,414 | $ 65,643 | $ (48,535) | $ 607,522 |

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

| | |
|---|---|
| Governmental activities: | |
| General Government | $ 26,273 |
| Public Safety | 3,141 |
| Parks and recreation | 4,089 |
| Public works | 25,441 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 3,897 |
| Total depreciation expense – governmental activities | $62,841 |
| Business-type activities: | |
| Storm Water Utility | 1,659 |
| Water and sewer | $ 13,129 |
| Total depreciation expense – business-type activities | $ 14,788 |

Discretely presented component units:

(Amounts expressed in thousands)

| | Balance at Beginning Of Year | Transfers And Additions | Transfers And Retirements | Balance at End Of Year |
|---|---|---|---|---|
| **Arlington Sports Facilities Development Authority, Inc.:** | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | $2,739 | $ - | $ (2,739) | $- |
| Total capital assets, being depreciated | 2,739 | - | (2,739) | - |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,698 | 109 | (1,807) | - |
| Total accumulated depreciation | 1,698 | 109 | (1,807) | - |
| Arlington Sports Facility Development Authority, Inc. capital assets, net | $1,041 | ($109) | $ (932) | $- |

| | Balance at Beginning Of Year | Transfers And Additions | Transfers And Retirements | Balance at End Of Year |
|---|---|---|---|---|
| **Arlington Housing Authority, Inc.:** | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 563 | - | - | 563 |
| Machinery and equipment | $ 262 | $ 104 | $ (12) | $354 |
| Total capital assets, being depreciated | 825 | 104 | (12) | 917 |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 356 | 64 | (12) | 408 |
| Total accumulated depreciation | 356 | 64 | - | 408 |
| Arlington Housing Authority, Inc. capital assets, net | $ 469 | $ 40 | $ - | $509 |

| | Balance at Beginning Of Year | Transfers And Additions | Transfers And Retirements | Balance at End Of Year |
|---|---|---|---|---|
| **Arlington Convention and Visitors Bureau, Inc.:** | | | | |
| Capital assets, being depreciated: | | | | |
| Machinery and equipment | $691 | $ 25 | $ (57) | $659 |
| Total capital assets, being depreciated | 691 | 25 | (57) | 659 |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 492 | 83 | (57) | 518 |
| Total accumulated depreciation | 492 | 83 | (57) | 518 |
| Arlington Convention and Visitors Bureau, Inc. capital assets, net | $199 | $(58) | $ - | $141 |

**6. PENSION AND EMPLOYEE BENEFIT PLANS**

Texas Municipal Retirement System

Plan Description:

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 837 administered by TMRS, an agent, multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or accessing the CAFR on line at www.tmrs.com.

Benefits depend upon a sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provides on an annually repeating basis annuity increases for retirees equal to 70% of the change in the consumer price index (CPI).

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City.

Funding Policy:

Under the state law governing TMRS, the actuary annually determines the City contribution rate on a calendar-year basis using the Projected Unit Credit actuarial method. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 15.51% of covered payroll for the months in calendar year 2009, and 16.76% for the months in calendar year 2010. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation for the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective of rates beginning January 1, 2010). If a change in plan provisions is elected by the City, this rate can change.

Annual Pension Cost and Net Pension Obligation:

The City's annual pension cost of $30,917,593 was $6,978,378 higher than the City's contributions.

| | |
|---|---|
| Annual required contribution (ARC) | $ 30,852,449 |
| Interest | 510,144 |
| Adjustment to the ARC | (445,000) |
| Annual pension cost (expense) | 30,917,593 |
| Contributions made | 23,939,215 |
| Increase (Decrease) in net pension obligation | 6,978,378 |
| Net pension obligation beginning of year | 7,287,773 |
| Net pension obligation end of year | $ 14,266,151 |

Three-Year Trend Information

| Fiscal Year | Annual Pension Cost | Percentage of APC Contribution | Net Pension Obligation (Asset) |
|---|---|---|---|
| 2008 | $19,486,546 | 100% | - |
| 2009 | $29,582,321 | 75.36% | $7,287,773 |
| 2010 | $30,917,593 | 77.43% | $14,266,151 |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets in increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Changes in Actuarial and Amortization Methods:

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, The TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually reporting basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than .5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. The statutes further provide that plan members may request up to a forty year amortization period. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded rations; however, the funded ration should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

Funding Status and Funding Progress:

As of December 31, 2009, the most recent actuarial valuation date, the plan was 60.2 percent funded. The actuarial accrued liability for benefits was $621,176,922, and the actuarial value of assets was $373,896,491, resulting in an unfunded actuarial accrued liability (UAAL) of $247,280,431. The covered payroll (annual payroll of active employees covered by the plan) was $147,276,384, and the ratio of the UAAL to the covered payroll was 167.9%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

| | |
|---|---|
| Actuarial Valuation Date | December 31, 2009 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 28 Years – Closed Period |
| Asset Valuation Method | Amortized Cost |
| Investment Rate of Return | 7.5% |
| Projected Salary Increases | Varies by age and service |
| Payroll growth | 3% |
| Withdrawal rates (low, mid or high) for Male/Female | Mid-High/Mid-High |
| Inflation Rate | 3% |
| Cost-of-Living Adjustments | 2.1% |

<u>Thrift Savings Plan</u>

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution savings are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2010, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $107,220,000.

The City's total payroll during fiscal 2010 was $147,606,000. The current year contribution was calculated based on a covered payroll of $88,713,000, resulting in a required and actual employer contribution of $2,490,000 and actual employee contributions of $5,741,000. The employer contribution represents 2.71 percent of the covered payroll. The employee contribution represents approximately 6.47 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2010. There were no related-party transactions. The Thrift Plan does not issue separate stand-alone financial statements.

<u>Part-Time Deferred Income Trust</u>

The City provides retirement benefits for all part-time, seasonal, and temporary employees through the Part-time Deferred Income Trust Plan (the “PDIT”), a single-employer defined benefit pension plan administered by the City of Arlington’s Workforce Services Department. The PDIT was adopted by the City Council in accordance with the safe harbor rules of the Internal Revenue Service regulations. The PDIT does not issue separate stand-alone financial statements.

As of July 1, 2009, the most recent actuarial valuation date, the plan was 154 percent funded. The actuarial accrued liability for benefits was $1,386,982, and the actuarial value of assets was $1,679,959, resulting in an excess funded actuarial accrued liability (EAAL) of $292,977. The covered payroll (annual payroll of active employees covered by the plan) was $2,668,972, and the ratio of the EAAL to the covered payroll was 10.9%.

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is currently 3.3 percent. The City's required contribution rate was determined as part of the July 1, 2009, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities.

The actuarial assumptions used in the July 1, 2009 actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

The following table discloses three-year historical trend information relating to the Part-Time Deferred Income Trust Plan.

| Fiscal Year Ending | Annual Required Contribution (ARC) | Percentage of ARC Contributed | Net Pension Obligation |
|---|---|---|---|
| 9/30/08 | $112,000 | 100.00% | - |
| 9/30/09 | $102,000 | 100.00% | - |
| 9/30/10 | $81,000 | 100.00% | - |

Benefits depend on length of service to the City and the employee's total contributions. At normal retirement age (65), the benefit consists of monthly payments equal to a percentage of the employee's average pay multiplied by years of service. The percentage of the employee's pay ranges from 1.50 percent to 2.00 percent, depending on the number of months of service.

IRC 457 Deferred Compensation Plans

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by the International City Management Associations Retirement Corporation (the "ICMA"). In addition, the City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is also administered by the ICMA. Since the City does not administer these plans, these plans are not included in the City's financial statements.

City contributions for the above plans for the year ended September 30, 2010, are as follows (amounts in thousands):

| | |
|---|---|
| TMRS | $23,939 |
| THRIFT | 2,490 |
| PTDIT | 81 |
| | $26,510 |

Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust and Thrift Savings Plans do not issue separate GAAP financial reports. Their financial statements are presented below as of and for the year-ended September 30, 2010 (amounts in thousands):

| | Net Assets | | |
|---|---|---|---|
| | Part-Time Deferred Income Trust | Thrift Savings Plan | Total |
| ASSETS | | | |
| Investments | $2,110 | $107,220 | $109,330 |
| Total Assets | $2,110 | $107,220 | $109,330 |
| NET ASSETS, Held in Trust For Pension Benefits | $2,110 | $107,220 | $109,330 |

| | Changes in Net Assets | | |
|---|---|---|---|
| | Part-Time Deferred Income Trust | Thrift Savings Plan | Total |
| ADDITIONS | | | |
| Employer contributions | $ 81 | $ 2,490 | $ 2,571 |
| Employee contributions | 75 | 5,952 | 6,027 |
| Net appreciation in fair value of investments | 200 | 10,320 | 10,520 |
| Total Additions | $ 356 | $18,762 | $19,118 |
| DEDUCTIONS | | | |
| Benefits | 91 | 8,607 | 8,698 |
| Plan administration | 34 | 24 | 58 |
| Total Deductions | 125 | 8,631 | 8,756 |
| Increase in Net Assets | 231 | 10,131 | 10,362 |
| NET ASSETS, October 1 | 1,879 | 97,089 | 98,684 |
| NET ASSETS, September 30 | $2,110 | $107,220 | $109,330 |

## 7. OTHER POST EMPLOYMENT BENEFITS

### Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (DIP), a single-employer other postemployment benefit disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund, a fiduciary fund of the City.

Summary of Significant Accounting Policies

*Basis of Accounting.* DIP's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Cash and cash equivalents with original maturity dates less than one year are stated at cost that approximates fair value. Investments are stated at fair value based on either the month end price, the last available price or the last available activity.

Plan Description and Contribution Information

Membership of the plan consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 29 |
| Active plan members | 2,287 |
| Total | 2,316 |

*Plan Description*. DIP is a single-employer defined benefit disability income plan that covers the employees of the City. The plan originally provided in-service death benefits and long term disability benefits commencing upon disablement. The plan was amended to eliminate the in-service death benefit and to start disability payments at age 65. The plan contemplates that long term disability benefits will be provided through a separate LTD insurance contract prior to age 65. The retired life liability for current disabled employees (many of whom are under age 65) is retained under the plan.

*Contributions.* The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City's contribution is determined through an actuarial valuation. Per the most recent valuation, the City is contributing at a rate equivalent to 0.30 percent of covered payroll. For the year ended September 30, 2010, the City contributed $374,000 to the plan. Administrative costs of DIP are financed through investment earnings.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

As of July 1, 2010, the most recent actuarial valuation date, the plan was 31.5 percent funded. The actuarial accrued liability for benefits was $2,531,879, and the actuarial value of assets was $797,987, resulting in an unfunded actuarial accrued liability (UAAL) of $1,733,892. The covered payroll (annual payroll of active employees covered by the plan) was $119,943,080, and the ratio of the UAAL to the covered payroll was 1.4%.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan, (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation date 07/01/10 | |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar amortization |
| Remaining amortization period | 20 years (closed) |
| Asset valuation method | Market value |
| Actuarial assumptions | |
| Investment rate of return | 6.5 percent |
| (Includes an inflation assumption of 4.5 percent) | |
| Pay progression | 4.5 percent |

*Funding Policy.* The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City fully funds the required contributions each year.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset (dollar amounts in thousands):

| | |
|---|---|
| Annual required contribution | $320 |
| Interest on net OPEB asset | (7) |
| Adjustment to annual required contribution | (8) |
| Annual OPEB cost (expense) | 305 |
| Contributions made | (388) |
| Increase in net OPEB asset | (83) |
| Net OPEB asset – beginning of year | (109) |
| Net OPEB asset – end of year | $(192) |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2010 and the two preceding years are as follows:

| **Year Ending** | **OPEB Cost** | **Annual OPEB Contribution** | **OPEB Obligation (Asset)** |
|---|---|---|---|
| 9/30/08 | $364,000 | 100.00% | - |
| 9/30/09 | $358,000 | 142.25% | ($109,000) |
| 9/30/10 | $305,000 | 127.21% | ($192,000) |

DIP does not issue separate GAAP financial reports. Its financial statements are presented below as of September 30, 2010 (in thousands):

| | Net Assets |
|---|---|
| Assets | |
| Investments | $861 |
| Total assets | $861 |
| Net assets, held in trust for | |
| Other postemployment benefits | $861 |

| | Changes in Net Assets |
|---|---|
| Additions | |
| Employer contributions | $374 |
| Net appreciation in fair value | |
| Of investments | 78 |
| Total additions | $452 |
| | |
| Deductions | |
| Benefits | 241 |
| Plan Administration | 11 |
| Total deductions | 252 |
| Increase in net assets | 200 |
| Net assets, October 1, 2009 | 661 |
| Net assets, September 30, 2010 | $861 |

**Retiree Health Insurance**

*Plan Description*. The City of Arlington administers a single-employer defined benefit health care plan. The plan provides postretirement health care benefits to eligible retirees and their spouses.

An eligible employee can continue their health care coverage in retirement if their age plus service is at least 70 with a minimum age requirement of 50 years and a minimum of ten years of service with the City. Employees hired after December 31, 2005 are not eligible for postretirement health care benefits. As of January 1, 2010, 612 retirees met those eligibility requirements. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants.

Retiree Contributions for Pre-2008 Retirees

For retirees who are below age 65, the City subsidizes the premium rate for the three PPO options with a dollar amount that is based upon a defined percentage of the total premium for the Core Plan. This same dollar amount is the subsidy for the Plus Plan and the Premium Plan as well. The percentage subsidy for the Core Plan varies by years of service at retirement, ranging from 40% to 100%. The percentage subsidy for spouse coverage ranges from 30% to 50% based on years of service. Retirees pay the balance of the total premium rates. The City also subsidizes the AARP Plan K and Secure Horizons premium rates for retirees age 65 and over, and the percentage subsidy varies by years of service.

Retiree Contributions for January 1, 2008 and After

The subsidy for future retirees will be a defined dollar amount, increasing with trend each year for 15 years. After 15 years, the subsidy will remain fixed. Retirees as of January 1, 2008 are grandfathered and their subsidy will not become fixed after 15 years.

*Funding Policy.* The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. Currently the plan is funded on a pay-as-you-go basis.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (dollar amounts in thousands):

| | |
|---|---|
| Annual required contribution | $ 8,583 |
| Interest on net OPEB Obligation | 510 |
| Adjustment to annual required contribution | (695) |
| Annual OPEB cost (expense) | 8,398 |
| Contributions made | (2,670) |
| Increase in net OPEB obligation | 5,728 |
| Net OPEB obligation – beginning of year | 11,328 |
| Net OPEB obligation – end of year | $17,056 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years are as follows (dollar amounts in thousands):

| | | | |
|---|---|---|---|
| 9/30/10 | $ 8,398 | 31.80% | $ 17,056 |
| 9/30/09 | $ 8,947 | 26.72% | $ 11,328 |
| 9/30/08 | $ 8,100 | 41.09% | $ 4,772 |

*Funded Status and Funding Progress.* As of January 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $100.9 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $100.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $99.5 million, and the ratio of the UAAL to the covered payroll was 98.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan, (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

| | |
|---|---|
| Actuarial Valuation Date | 1/01/2010 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level dollar, open |
| Remaining Amortization Period | 30 years |
| Healthcare inflation rate – medical | 9% initial (2010)<br>5% ultimate (2014) |
| Healthcare inflation rate – prescription | 11% initial (2010)<br>5% ultimate (2016) |

**Supplemental Death Benefits Plan**

*Plan Description.* The City of Arlington contributes to the Supplemental Death Benefit Fund (SDBF), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS). This is a separate trust administered by the TMRS Board of Trustees. SDBF provides a death benefit of $7,500 for retirees. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

*Funding Policy.* Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently .18 percent of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees covered by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are made monthly based on covered payroll of employee members of the City. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB. The City's contributions to SDBF for the years ended September 30, 2009, 2008, and 2007, were $257,104, $258,737, and $282,863 respectively, which equaled the required contributions each year.

**8. DEBT AND LIABILITIES**

General Short-Term Debt

During fiscal 2005, the City authorized a $30,000,000 commercial paper program for interim funding of general obligation debt. The debt will mature on various days over the next several months and will be rolled over. During fiscal 2010 commercial paper of $4,800,000 was paid off from permanent improvement bond refunding.

General short-term debt balances and transactions for the year ended September 30, 2010 are as follows (amounts in thousands):

| | Balance, October 1, 2009 | Additions | Retirements and Other | Balance, September 30, 2010 |
|---|---|---|---|---|
| Commercial Paper | $22,000 | $ - | $ 4,800 | $17,200 |

General Obligation Bonds

In September, 2009, the City issued $29,415,000 of Permanent Improvement and Refunding Bonds, Series 2009 that funded in October of 2009 for the purpose of making various capital improvements, paying the cost of issuance related to the bond sale and refunding $500,000 of commercial paper notes. The bonds will mature on August 15 over a period from 2010 to 2029. Interest is payable February 15 and August 15 of each year commencing February 15, 2010. Total interest requirements for these bonds at a rate of 3.550 percent interest, is $12,852,561 in the aggregate.

In July, 2010, the City issued $34,480,000 in Permanent Improvement and Refunding Bonds, Series 2010 for the purpose of refunding a portion of the City's outstanding debt, making various capital improvements, paying the cost of issuance of the bonds, and refunding $4,300,000 of commercial paper notes. The bonds mature on August 15 over a period from 2011 to 2030. Interest is payable February 15 and August 15 of each year, commencing February 15, 2011. The refunding was undertaken to achieve a present value savings on debt service payments of $401,108.65. Total interest requirement for these bonds at a rate from 3.00 to 5.00 percent is $12,435,724.14 in the aggregate. The City recognized a deferred loss of $817,508. Following is the schedule of refunded obligations (amounts in thousands):

| Bond | Original Dated Date | Original Maturity Date | Interest Rates | Amount |
|---|---|---|---|---|
| Commercial Paper Notes | 2/8/2010 | 8/6/2010 | 0.28% | $ 4,300 |
| Combination Tax & Revenue Certificates of Obligation, Series 1999-A | 7/1/1999 | 8/15/2011 | 5.00% | 20 |
| Permanent Improvement Bonds, Series 1999 | 7/1/1999 | 8/15/2011 | 5.00% | 1,580 |
| Combination Tax & Revenue Certificates of Obligation, Series 2000 | 7/15/2000 | 8/15/2011 | 5.10% | 100 |
| | | 8/15/2012 | 5.15% | 100 |
| | | | | 200 |
| Permanent Improvement Bonds, Series 2000 | 7/15/2000 | 8/15/2011 | 5.00% | 1,545 |
| | | 8/15/2012 | 5.15% | 1,545 |
| | | | | 3,090 |
| Combination Tax & Revenue Certificates of Obligation, Series 2001-B | 3/1/2001 | 8/15/2013 | 4.60% | 425 |
| | | 8/15/2014 | 4.65% | 425 |
| | | 8/15/2015 | 4.75% | 425 |
| | | 8/15/2016 | 4.80% | 425 |
| | | 8/15/2017 | 4.90% | 425 |
| | | | | 2,125 |
| Permanent Improvement Refunding Bonds, Series 2001-A | 6/1/2001 | 8/15/2012 | 5.50% | 2,025 |
| | | 8/15/2013 | 5.50% | 1,125 |
| | | 8/15/2015 | 4.75% | 580 |
| | | | | 3,730 |
| Permanent Improvement Bonds, Series 2001-B | 6/1/2001 | 8/15/2012 | 4.65% | 500 |
| | | 8/15/2013 | 4.80% | 500 |
| | | 8/15/2014 | 4.90% | 500 |
| | | | | 1,500 |
| | | Total Refunded Obligations | | $16,545 |

General obligation bonds currently outstanding are as follows (amounts in thousands):

| Purpose | Interest Rates | Amount |
|---|---|---|
| Governmental activities | 2.5% - 6.000% | $117,560 |
| Governmental activities – refunding | 2.5% - 5.500% | 136,865 |
| Total governmental | | $254,425 |

Annual debt service requirements to maturity for general obligation bonds are as follows (amounts in thousands):

| Year Ending | Governmental activities | |
|---|---|---|
| | General | GO |
| September 30 | Obligation | Interest |
| 2011 | $ 22,150 | $ 11,642 |
| 2012 | 21,470 | 10,403 |
| 2013 | 20,660 | 9,440 |
| 2014 | 21,585 | 8,523 |
| 2015 | 21,595 | 7,536 |
| 2016-2020 | 84,600 | 23,910 |
| 2021-2025 | 41,695 | 9,175 |
| 2026-2030 | 20,670 | 2,028 |
| Total | $254,425 | $82,657 |

General obligation debt authorized and unissued as of September 30, 2010, amounted to $128,190,000.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2010, this liability is reported at $501,341 in the governmental activities.

Certificates of Obligation

Concurrent with the 2009 Public Improvement and Refunding Bonds, the City issued Combination Tax and Revenue Certificates of Obligation as follows, $6,865,000 Series 2009A certificates, and $2,065,000 Series 2009B certificates, funded October, 2009. The certificates were issued for the purpose of making various capital improvements and paying the cost of issuance related to the bond sale. The Series 2009A Certificates will mature on August 15 over a period from 2010 to 2016. Interest is payable February 15 and August 15 of each year commencing February 15, 2010. The total interest requirement for the 2009A certificates at rates from 2.0 to 4.0 percent is $530,179 aggregate. The Series 2009B certificates will mature on August 15 over a period from 2010 to 2016. Interest is payable February 15 and August 15 of each year commencing February 15, 2010. The total interest requirement for the 2009B certificates at a rate of 2.0 percent is $166,339 aggregate. The City also issued $5,755,000 Series 2010 certificates with interest payable on February and August 15 of each year commencing February, 2011. The bonds mature over a period from 2011 through 2017, with a final maturity date of August 15, 2017. The total interest requirement for the 2010 certificates with interest rates of 2.0-2.75 percent is $548,342 aggregate.

Annual debt service requirements to maturity for certificates of obligation of the primary government are as follows (amounts in thousands):

| Year Ending September 30 | Governmental activities Certificates of Obligation | CO Interest |
|---|---|---|
| 2011 | $4,600 | $2,809 |
| 2012 | 4,595 | 2,639 |
| 2013 | 4,810 | 2,478 |
| 2014 | 4,750 | 2,331 |
| 2015 | 4,545 | 2,187 |
| 2016-2020 | 14,490 | 9,036 |
| 2021-2025 | 12,930 | 6,206 |
| 2026-2030 | 11,675 | 3,181 |
| 2031-2033 | 7,070 | 664 |
| Total | $ 69,465 | $ 31,531 |

Special Obligation Bonds

In 2005, the City issued $297,990,000 Dallas Cowboys Complex Special Obligations to fund the City's share of the project costs for the Complex, including $164,265,000 Dallas Cowboys complex Special Obligation Tax-Exempt Special Tax bonds, Series 2005B (the "Multi-Modal Bonds"). In December 2008, the City issued $112,185,000 in Special Tax Revenue Bonds, Series 2008 to refund $104,265,000 of the Series 2005B bonds.

The City no longer has variable rate bond or swap exposure.

The debt service requirements of the above special obligation debt are as follows (amounts in thousands):

| Year Ending September 30 | Governmental Activities Principal | Interest |
|---|---|---|
| 2011 | $ 7,415 | $ 14,990 |
| 2012 | 7,695 | 14,714 |
| 2013 | 8,000 | 14,392 |
| 2014 | 7,710 | 14,026 |
| 2015 | 8,070 | 13,664 |
| 2016-2020 | 58,605 | 61,578 |
| 2021-2025 | 85,430 | 43,804 |
| 2026-2030 | 51,495 | 20,917 |
| 2031-2034 | 64,130 | 8,212 |
| | $298,550 | $206,297 |

The City has pledged future revenues consisting of one-half cent sales tax, two percent hotel occupancy tax, five percent car rental tax, future stadium base rental revenue of $2 million per year and five percent of any future naming rights up to a maximum of $500 thousand annually to repay the Dallas Cowboys Stadium Bonds. Annual principal and interest payments are expected to require 100 percent of these revenues. The total principal and interest remaining to be paid on the Dallas Cowboys Stadium Bonds is $504,847,000. Principal and interest payments and total pledged revenues for the year ended September 30, 2010 were $20,407,000 and $23,568,000, respectively.

Revenue Bonds

The City also issues bonds where the government pledges income derived from the operations of the Water and Sewer Fund.

In June, 2010, the City issued $21,515,000 in Water and Wastewater System Revenue and Refunding Bonds, Series 2010 for the purpose of refunding a portion of the City's outstanding debt, making various capital improvements, paying the cost of issuance of the bonds and purchase of $12,232,507 of U.S Government securities which were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments on the refunded issues. The bonds mature on June 1 over a period from 2011 to 2030. Interest is payable June 1 and December 1 of each year, commencing December 1, 2010. Total interest requirement for these bonds at a rate from 4.00 to 5.00 percent is $6,614,268 in the aggregate. The refunding was undertaken to achieve a present value savings on debt service payments of $533,264. The difference between the reacquisition price and the carrying amount of the debt resulted in a loss of $817,507 which has been recorded in the Proprietary Funds' financial statements.

Following is the schedule of refunded obligations (amounts in thousands):

| Bonds | Original Dated Date | Original Maturity Date | Interest Rates | Amount |
|---|---|---|---|---|
| Water & Wastewater System Revenue | 3/1/2001 | 6/1/2012 | 5.00% | $1,040 |
| Bonds, Series 2001 | | 6/1/2013 | 5.00% | 1,040 |
| | | 6/1/2014 | 5.00% | 1,040 |
| | | *** | *** | *** |
| | | 6/1/2020 | 5.00% | 1,035 |
| | | | | $4,155 |
| Water & Wastewater System Revenue | 3/1/2002 | 6/1/2013 | 4.60% | $810 |
| Bonds, Series 2002 | | 6/1/2014 | 4.70% | 810 |
| | | 6/1/2015 | 4.80% | 810 |
| | | 6/1/2016 | 4.90% | 805 |
| | | 6/1/2017 | 5.00% | 805 |
| | | 6/1/2018 | 5.00% | 805 |
| | | 6/1/2019 | 5.00% | 805 |
| | | 6/1/2020 | 5.00% | 805 |
| | | 6/1/2021 | 5.00% | 805 |
| | | | | $7,260 |
| | | Total Refunded Obligations | | $ 11,415 |

The Series 2001 Bonds will be redeemed prior to original maturity on June 1, 2011, at par; the Series 2002 Bonds will be redeemed prior to original maturity on June 1, 2012, at par. The refunded bonds are considered to be legally defeased and the liability is not reflected in the statement of net assets.

In fiscal 2010, the City issued Water and Sewer Revenue Bonds in the amount of $9,610,000 for the purpose of expanding the John F. Kubala Water Treatment Plant and construction of a water tower at Tierra Verde. These bonds are held by the Texas Water Development Board (TWDB) and bring the total outstanding TWDB balance to $26,095,000. These bonds will mature June 2011 to June 2024 at interest rates of 1.35 percent to 3.10 percent.

The revenue bond debt service requirements to maturity are as follows (amounts in thousands):

| Year Ending September 30 | Business Activities Principal | Business Activities Interest | Business Activities - TWDB Principal | Business Activities - TWDB Interest |
|---|---|---|---|---|
| 2011 | $ 8,100 | $ 3,428 | $ 1,900 | $ 589 |
| 2012 | 7,740 | 3,137 | 1,900 | 567 |
| 2013 | 7,255 | 2,840 | 1,900 | 538 |
| 2014 | 6,775 | 2,553 | 1,900 | 507 |
| 2015 | 6,720 | 2,278 | 1,900 | 473 |
| 2016-2020 | 27,550 | 7,643 | 9,500 | 1,747 |
| 2021-2025 | 15,140 | 2,776 | 7,095 | 502 |
| 2026-2030 | 4,845 | 464 | - | - |
| | $ 84,125 | $25,119 | $26,095 | $4,923 |

Net revenues of the City's water operations have been pledged for repayment of the City's revenue bonds. The amount of the pledge is equal to the remaining outstanding debt service requirements for these bonds, which were all originally issued to provide funding for construction of the water and wastewater systems. The pledge continues for the life of the bonds. For the year ended September 30, 2010, net pledged revenues for the water enterprise fund were $47,861,000 and debt service on the revenue bonds was $13,990,234.

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2010 (amounts expressed in thousands):

| | 10/1/2009 | Increases | Reductions | 9/30/2010 | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation debt | $221,380 | $ 63,895 | ($30,850) | $254,425 | $22,150 |
| Special tax revenue debt | 303,780 | - | (5,230) | 298,550 | 7,415 |
| Certificates of obligation | 61,920 | 14,685 | (7,140) | 69,465 | 4,600 |
| Premium on general bonds | 3,865 | 2,744 | (912) | 5,697 | - |
| Premium on special bonds | 5,732 | - | (367) | 5,365 | - |
| Deferred loss on refunding | (1,391) | (834) | 581 | (1,644) | - |
| Deferred loss on special bond refund | (3,297) | - | 137 | (3,160) | - |
| Discount on special bonds | (3,986) | - | 287 | (3,699) | - |
| Net governmental bonds payable | 588,003 | 80,490 | (43,494) | 624,999 | 34,165 |
| Compensated absences | 28,688 | (754) | (1,481) | 26,453 | 1,322 |
| Capital leases | 751 | - | (412) | 339 | 255 |
| Arbitrage liability | 193 | - | (118) | 75 | - |
| Claims | 9,748 | 5,222 | (5,485) | 9,485 | 5,216 |
| Landfill closure | 6,292 | 446 | - | 6,738 | - |
| Sales tax | 485 | 172 | (155) | 502 | 223 |
| Net other post-employ benefit oblg. | 11,328 | 5,728 | - | 17,056 | - |
| Net pension oblg. | 7,288 | 6,978 | - | 14,266 | - |
| Total governmental long-term liabilities | $652,776 | $98,282 | ($51,145) | $699,913 | $41,181 |
| Business-type activities: | | | | | |
| Water and sewer bonds | $100,500 | $31,125 | ($21,405) | $110,220 | $10,000 |
| Premium on water and sewer bonds | 927 | 908 | (262) | 1,573 | - |
| Deferred loss on refunding | (1,020) | (817) | 164 | (1,673) | - |
| Net water and sewer bonds payable | 100,407 | 31,216 | (21,503) | 110,120 | 10,000 |
| Compensated Absences | 2,014 | 44 | (147) | 1,911 | 105 |
| Total business-type long term liabilities | $102,421 | $31,260 | ($21,650) | $112,031 | $10,104 |
| Component units: | | | | | |
| Sales tax payable | 240 | - | (240) | - | - |
| Total component unit long-term debt | $ 240 | $ - | ($ 240) | $ - | $ - |

## 9. PRIOR YEAR BOND REFUNDINGS

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2010, previously defeased debt still outstanding amounted to $30,805,000.

## 10. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2010, is as follows (amounts in thousands):

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| General Fund | $5,191 | $ - |
| Nonmajor Funds | - | 5,191 |
| | $5,191 | $5,191 |

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2011.

Transfers between funds during the year were as follows (amounts in thousands):

| | Transfers Out | Transfers In |
|---|---|---|
| Major Governmental Funds: | | |
| General Fund | $ 13,915 | $ 18,992 |
| Debt Service Fund | 251 | 2,926 |
| Street Capital Projects | - | 309 |
| Stadium Venue Fund | - | 251 |
| Total Major Governmental Funds | 14,166 | 22,478 |
| | | |
| Major Enterprise Fund-Water and Sewer | 13,173 | - |
| Nonmajor Enterprise Fund-Storm Water Utility | 520 | - |
| | | |
| Other Funds: | | |
| Nonmajor Governmental Funds | 9,496 | 11,437 |
| Internal Service Funds | 1,000 | 4,440 |
| | | |
| Total All Funds | $38,355 | $38,355 |

The combined Water and Sewer, and Convention and Event Services transferred $3,830,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred $9,852,000 to Street Maintenance Fund, Special Transportation (Handitran), Arlington Property Finance Authority, Parks Performance Fund and other special revenue funds to cover budgeted operating expenses.

The other General Fund transfers were to cover budgeted operating expenses in other funds.

The Debt Service Fund received transfers of $1,358,000 from the Convention and Event Services and Water and Sewer to cover debt service repayments.

## 11. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The City accounts for its landfill closure and post-closure care costs in accordance with GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs."

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as a liability on the Statement of Net Assets in each period based on landfill capacity used as of each balance sheet date. This liability is offset by an asset recorded for a trust account established for the purpose of paying the closure and post-closure costs as more fully described below. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The $6,738,000 reported as a landfill closure and post-closure accrued liability at September 30, 2010, represents the cumulative amount reported to date based on the use of approximately 77 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $2,038,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2010. The City expects to close the landfill in 2028. Actual costs may change due to inflation, changes in technology, or changes in regulations.

On March 18, 2005, the City entered into a contract with Republic Waste Services of Texas, Ltd. (Republic) for a 20 year renewable operating lease of the landfill. The City received an initial payment of $15 million; the remaining balance of deferred revenue of $6,630,000 will be amortized over the life of the lease. Republic is responsible for the funding of monthly contributions to a trust account that will pay closure and post-closure costs as required by state and federal laws and regulations. Republic is in compliance with these requirements and at September 30, 2010, cash and cash equivalents are held for these purposes.

## 12. COMMITMENTS AND CONTINGENCIES

Trinity River Authority

The City entered into a 50 year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

Grant Audits

The City receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

Construction Commitments

The City has various active construction projects as of September 30, 2010. The projects include street construction, park construction, police construction, traffic construction, and the construction of water and sewer facilities. At year-end the City’s commitments with contractors are as follows (amounts in thousands):

| Project | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Street Construction | $ 55,495 | $ 7,194 |
| Park Construction | 18,825 | 1,854 |
| Police Construction | - | 3 |
| Traffic Construction | 9,201 | 10 |
| Water and Sewer Construction | 70,925 | 8,254 |
| | $ 154,446 | $ 17,315 |

The street, police and traffic construction projects are funded primarily by permanent improvement bonds proceeds. The park construction projects are funded by permanent improvement bond proceeds, certificate of obligation proceeds, and park fee revenues. Water and sewer construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer system.

Litigation

The City is currently involved in several lawsuits that are in appeals, with potential liability for the City from zero to $1,000,000; however, the City does not consider these lawsuits to contain a probable likelihood of unfavorable outcomes.

Based upon comparative responsibility, some liability is probable in one lawsuit in which the City is Involved. Pursuant to the Texas Tort Claims Act, damages would be capped at $250,000.

Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 13) of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position as a whole.

## 13. RISK MANAGEMENT

The City's risk management activities are administered through various internal service funds.

Arlington Property Finance Authority (APFA)

The APFA was created for the purpose of acting on the City's behalf in financing various governmental programs as prescribed by ordinance or resolution of the City Council. In October 1986, the City Council adopted an ordinance to establish the City's Self-insurance and Risk Management Program (the "Program"). The purpose of the Program is to provide the City a defined and funded self-insurance program for bodily injury, property damage, personal injury, advertising injury, and regulatory injury.

Annual transfers from the General Fund and the Water Fund based on actuarial projections of Ultimate Losses, are made to support the program. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed $1,000,000 per occurrence and $3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.0 percent.

Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of $500,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.0 percent.

Group Health

Group medical benefits are paid through the Group Health Fund. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage.

Changes in the balances of claims liabilities during fiscal 2010 and 2009 were as follows (amounts in thousands):

| | Workers' Compensation | | Health | | APFA | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Unpaid claims Oct 1 | $ 5,306 | $ 4,479 | $ 1,694 | $ 1,600 | $ 2,748 | $ 2,223 |
| Incurred Claims (including IBNRs and changes in estimates) | 1,412 | 3,536 | 18,238 | 15,651 | (147) | 1,194 |
| Claim payments | (1,475) | (2,709) | (18,118) | (15,557) | (173) | (669) |
| Unpaid Claims Sept 30 | $ 5,243 | $ 5,306 | $ 1,814 | $ 1,694 | $ 2,428 | $ 2,748 |

**14. LEASES**

A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals approximately $339,000 and is reported as capital lease obligations current liabilities (approximately $255,000) and capital lease obligations non-current liabilities (approximately $84,000) in the General Services Fund and the Court Technology Fund.

Future minimum lease payments for capital leases including interest and principal are as follows (amounts in thousands):

| Year ending September 30, 2010 | Rental Payments |
|---|---|
| 2011 | $268 |
| 2012 | 70 |
| 2013 | 17 |
| Total minimum future lease payments | 355 |
| Less: Amount representing interest | (16) |
| Present value of net minimum lease payments | $339 |

The City's investment in equipment under capital lease arrangements as of September 30, 2010 is $1,222,000.

B. As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, the lessee shall pay the total annual rent of $250,000. For each year thereafter the lessee shall pay an annual rent amount equal to the previous year's rent plus an increase not to exceed the effective percentage change in the Consumer Price Index (Specifically CPI-U for Dallas-Fort Worth region) for the previous 12 month period. Total rental payments received in 2010 were approximately $265,375.

## 15. SETTLEMENT AGREEMENT

On April 27, 1999, the ASFDA and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the ASFDA and the City alleged should be paid by the Rangers (the "Claim").

The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

| Year | Amount |
|---|---|
| 2010 | $ 900,000 |
| 2011 | 1,000,000 |
| 2012 | 1,000,000 |
| 2013 | 1,000,000 |
| 2014 | 1,000,000 |
| 2015 to 2019 | 5,000,000 |
| 2020 to 2024 | 5,000,000 |
| | 14,900,000 |
| Less Discount | 4,658,000 |
| | $10,242,000 |

The total is reported as a settlement agreement receivable by the ASFDA. The payment in 2024 is due on or before March 1. By entering into this agreement, the ASFDA and the City agreed to release and discharge the Rangers from the Claim.

## 16. CAPITAL LEASE

A lease agreement was executed on June 23, 1992 between the Texas Rangers, Ltd. (the Rangers) and the ASFDA for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of $2,000,000 per year for the 30-year term of the lease. At the end of the lease, the Rangers have the option to purchase the Facility, excluding the linear park, at a cost of $60,000,000, with full credit given for all base and additional rents paid, as well as up to $1,500,000 annual credit for maintenance costs paid on the Facility by the Rangers. If the purchase option is exercised, the Rangers are committed to play baseball in the City for ten additional years.

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease.

Minimum future rentals are as follows:

| September 30 | |
|---|---|
| 2011 | $ 2,000,000 |
| 2012 | 2,000,000 |
| 2013 | 2,000,000 |
| 2014 | 2,000,000 |
| 2015 | 2,000,000 |
| 2016-2020 | 10,000,000 |
| 2021-2024 | 7,055,556 |
| | 27,055,556 |
| Less Discount | 10,492,543 |
| Minimum future lease rentals | $16,563,013 |

## 17. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). In August the ASFDA was closed and transferred to the General fund $931 of capital assets; $401 cash; $172 liabilities and $26,805 in long-term accounts receivable. Condensed component unit information for the year ended September 30, 2010, for all discretely presented component units is as follows (amounts in thousands):

Condensed Schedule of Net Assets

| | Arlington Sports Facilities Development Authority, Inc. | Arlington Tomorrow Foundation | Housing Authority | Other Discretely Presented Component Units | Total Discretely Presented Component Units |
|---|---|---|---|---|---|
| Current and other assets | $- | $69,265 | $ 7,723 | $721 | $ 77,709 |
| Capital assets | - | - | 509 | 141 | 650 |
| Total assets | - | 69,265 | 8,232 | 862 | 78,359 |
| Other liabilities | - | 3,049 | 693 | 174 | 3,916 |
| Total liabilities | - | 3,049 | 693 | 174 | 3,916 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | - | - | 509 | 141 | 650 |
| Restricted | - | 66,216 | - | - | 66,216 |
| Unrestricted | - | - | 7,030 | 547 | 7,577 |
| Total net assets | $ - | $66,216 | $7,539 | $688 | $74,443 |

Condensed Schedule of Activities

| | Arlington Sports Facilities Development Authority, Inc. | Arlington Tomorrow Foundation | Housing Authority | Other Discretely Presented Component Units | Total Discretely Presented Component Units |
|---|---|---|---|---|---|
| Expenses | $ 30,810 | $1,550 | $27,258 | $3,840 | $63,458 |
| Program Revenues: | | | | | |
| Charges for services | 534 | - | - | 3,719 | 4,253 |
| Operating grants and contributions | - | - | 27,295 | 78 | 27,373 |
| Capital grants and Contributions | - | - | - | - | - |
| Net Program (Expense) Revenue | (30,276) | (1,550) | 37 | (43) | (31,832) |
| Interest Revenues | 1,238 | 1,634 | 62 | 5 | 2,939 |
| Other NonTax General Revenues | (2) | 13,581 | 2,129 | (2) | 15,706 |
| Change in Net Assets | (29,040) | 13,665 | 2,228 | (40) | (13,187) |
| Net Assets, October 1, | 29,040 | 52,551 | 5,311 | 728 | 87,630 |
| Net Assets, September 30 | $ - | $66,216 | $ 7,539 | $ 688 | $74,443 |

Conduit Debt - Mortgage Revenue Bonds

The Arlington Housing Finance Corporation issues Single Family Revenue Bonds. The proceeds of the bonds are placed in trust to be used for the origination of qualifying single-family mortgages or to refund, at any time, bonds previously issued by Arlington Housing Finance Corporation. The bonds are to be paid only from the funds placed in trust, and these funds can be used only for purposes specified in the bond indenture. Arlington Housing Finance Corporation is liable to the bondholders only to the extent of the related revenues and assets pledged under the indenture. Therefore, these transactions are accounted for as conduit debt, and the principal amount of the bonds outstanding and assets held by the trustee are not reflected on the face of the financial statements.

At September 30, 2010, outstanding conduit debt was as follows:

| Bond Series | Original Issue Amount | Outstanding Amount |
|---|---|---|
| Arlington 03B | $ 12,375,000 | $ 2,777,683 |
| Arlington 06 | 12,857,000 | 9,111,740 |
| Total | $25,232,000 | $11,889,423 |

## 18. SUBSEQUENT EVENTS

In October 2010, the City issued Permanent Improvement Refunding Bonds, Series 2010A of $21.28 million with an interest rate of 4.0 percent and serial maturities August 15 from 2011 through 2023. Interest on the bonds will be due every February and August 15, beginning February 15, 2011. The bonds were issued to refund certain debt obligations of the City and to pay costs related to the issuance of the bonds. The following is a breakdown of the refunded obligations (amounts in thousands):

| Bonds | Original Dated Date | Original Maturity Date | Interest Rate | Amount Refunded |
|---|---|---|---|---|
| Combination Tax & Revenue Certificates of Obligation, Series 2001B | 3/1/2001 | 8/15/2012 | 4.50% | $ 425 |
| Combination Tax & Revenue Certificates of Obligation, Series 2001C | 7/1/2001 | 8/15/2012 | 4.60 | 25 |
| | | 8/15/2013 | 4.70 | 25 |
| | | 8/15/2014 | 4.70 | 25 |
| | | 8/15/2015 | 4.80 | 25 |
| | | 8/15/2016 | 4.90 | 25 |
| | | 8/15/2017 | 5.00 | 25 |
| | | 8/15/2018 | 5.00 | 25 |
| | | 8/15/2019 | 5.00 | 25 |
| | | 8/15/2020 | 5.00 | 25 |
| | | 8/15/2021 | 5.00 | 25 |
| | | | | 250 |
| Permanent Improvement Bonds, Series 2002 | 7/15/2002 | 8/15/2013 | 4.00 | 1,190 |
| | | 8/15/2014 | 4.20 | 1,190 |
| | | 8/15/2015 | 4.30 | 1,190 |
| | | 8/15/2016 | 4.40 | 1,190 |
| | | 8/15/2017 | 4.50 | 1,190 |
| | | 8/15/2018 | 4.60 | 1,190 |
| | | 8/15/2019 | 4.70 | 1,190 |
| | | 8/15/2020 | 4.75 | 1,190 |
| | | 8/15/2021 | 4.875 | 1,190 |
| | | 8/15/2022 | 5.00 | 1,190 |
| | | | | 11,900 |
| Combination Tax & revenue Certificates of Obligation. Series 2003 | 7/15/2003 | 8/15/2019 | 4.50 | 375 |
| | | 8/15/2023 | 4.75 | 300 |
| | | | | 675 |
| Permanent Improvement & Refunding Bonds, Series 2003 | 6/15/2003 | 8/15/2015 | 5.00 | 1,550 |
| | | 8/15/2016 | 5.00 | 810 |
| | | 8/15/2017 | 5.00 | 810 |
| | | 8/15/2018 | 5.00 | 810 |
| | | 8/15/2019 | 5.00 | 810 |
| | | 8/15/2020 | 5.00 | 810 |
| | | 8/15/2021 | 5.00 | 810 |
| | | 8/15/2022 | 5.00 | 810 |
| | | 8/15/2023 | 5.00 | 810 |
| | | | | 8,030 |
| | Total Refunded Obligations | | | $21,280 |

# APPENDIX C

# FORMS OF BOND COUNSEL OPINION

[Form of Bond Counsel Opinion]

[Closing Date]

$17,805,000
CITY OF ARLINGTON, TEXAS
PERMANENT IMPROVEMENT AND
REFUNDING BONDS, SERIES 2011A

WE HAVE represented the City of Arlington, Texas (the "Issuer"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as

CITY OF ARLINGTON, TEXAS PERMANENT IMPROVEMENT AND REFUNDING BONDS, SERIES 2011A, dated June 15, 2011 in the principal amount of $17,805,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, a certificate (the "Sufficiency Certificate") of U.S. Bank National Association, Issuing and Paying Agent for the City's General Obligation Commercial Paper Notes, Series A (the "Issuing and Paying Agent"), verifying the sufficiency of the deposits made with the Issuing and Paying Agent for defeasance of the commercial paper notes being refunded (the "Refunded Obligations"); and customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of the Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations; and

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations by the deposit with the Issuing and Paying Agent of an amount sufficient for the payment thereof, and therefore, the Refunded Obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds deposited with the Issuing and Paying Agent.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds may be

included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial Purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial Purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Sufficiency Certificate. If such representations or the Sufficiency Certificate are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

[Form of Bond Counsel Opinion]

[Date]

$15,185,000
CITY OF ARLINGTON, TEXAS
PERMANENT IMPROVEMENT
REFUNDING BONDS, SERIES 2011B

WE HAVE represented the City of Arlington, Texas (the "Issuer"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as

CITY OF ARLINGTON, TEXAS PERMANENT IMPROVEMENT REFUNDING BONDS, SERIES 2011B, dated June 15, 2011 in the principal amount of $15,185,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the Issuer and Wells Fargo Bank. N.A. as escrow agent (the "Escrow Agent"); a certificate (the "Sufficiency Certificate") of the City's financial advisor verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the "Refunded Obligations"); and customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other certified showings relating to the

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authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of the Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations; and

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Escrow Agreement and Sufficiency Certificate and therefore, the Refunded Obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds may be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial Purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial Purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Sufficiency Certificate. If such representations or the Sufficiency Certificate are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

[Form of Bond Counsel Opinion]

[Closing Date]

$1,770,000

CITY OF ARLINGTON, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2011

WE HAVE represented the City of Arlington, Texas (the "Issuer"), as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

> CITY OF ARLINGTON, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011, dated June 15, 2011, in the principal amount of $1,770,000.
>
> The Certificates mature, are subject to redemption, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States

Department of the Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a limited pledge of $1,000 of the Surplus Revenues, as defined in the Ordinance, derived from Issuer's water and wastewater system; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and

(2) Interest on the Certificates is not (A) a specific preference item subject to the alternative minimum tax on individuals and corporations or (B) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial Purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial Purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above are based on existing law which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state and local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.