OFFICIAL STATEMENT DATED JUNE 5, 2012

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, under existing law, interest on the 2012A Bonds is excludable from gross income for federal income tax purposes and the 2012A 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 BONDS HAVE **NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

$31,320,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Permanent Improvement and Refunding Bonds, Series 2012A

Dated: June 1, 2012 **Due: August 15, as shown below**
Interest to accrue from date of delivery.

The $31,320,000 City of Arlington, Texas, Permanent Improvement Refunding and Bonds, Series 2012A (the "2012A 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 2012A 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 2012A Bonds purchased. Interest on the 2012A Bonds will accrue from the date of their delivery to the Initial Purchasers (the "Delivery Date") and will be payable on February 15 and August 15 of each year, commencing August 15, 2012.

MATURITY SCHEDULE

(August 15) Maturity	Amount	Rate	Yield	CUSIP[1]	(August 15) Maturity	Amount	Rate	Yield	CUSIP[1]
2013	$ 1,570,000	3.000%	0.400%	041796FW8	2023	$ 1,565,000	3.000%	2.550%[2]	041796GG2
2014	1,570,000	3.000%	0.550%	041796FX6	2024	1,565,000	3.000%	2.900%[2]	041796GH0
2015	1,565,000	3.000%	0.750%	041796FY4	2025	1,565,000	3.000%	3.040%	041796GJ6
2016	1,565,000	2.500%	0.870%	041796FZ1	2026	1,565,000	3.000%	3.110%	041796GK3
2017	1,570,000	2.500%	1.120%	041796GA5	2027	1,565,000	5.000%	2.740%[2]	041796GL1
2018	1,570,000	2.500%	1.390%	041796GB3	2028	1,565,000	3.125%	3.270%	041796GM9
2019	1,570,000	2.500%	1.650%	041796GC1	2029	1,565,000	3.125%	3.340%	041796GN7
2020	1,565,000	2.500%	1.920%	041796GD9	2030	1,565,000	3.250%	3.390%	041796GP2
2021	1,565,000	2.500%	2.130%	041796GE7	2031	1,565,000	3.375%	3.460%	041796GQ0
2022	1,565,000	2.500%	2.300%	041796GF4	2032	1,560,000	3.375%	3.520%	041796GR8

(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) Priced to the August 15, 2022 optional 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 2012A Bonds are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2012B" (the "2012B Bonds") and the "City of Arlington, Texas, Water and Wastewater Revenue Bonds, Series 2012" (the "Water and Wastewater Bonds"). The 2012A Bonds and the 2012B Bonds are being offered under a common Official Statement and are hereinafter sometimes referred to collectively as the "Obligations." The 2012A Bonds, 2012B Bonds and Water and Wastewater Bonds are separate and distinct securities offerings being issued and sold independently. While the 2012A Bonds, 2012B Bonds and Water and Wastewater Bonds share certain common attributes, each issue is separate from the others 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 2012A Bonds having stated maturities on and after August 15, 2023, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on August 15, 2022, 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 2012A Bonds are offered for delivery when, as and if issued and received by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and of Bracewell & Giuliani LLP, Bond Counsel. (See APPENDIX C "Form of Bond Counsel Opinion").

Delivery. It is expected that the 2012A Bonds will be delivered through the facilities of DTC on or about June 28, 2012.

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OFFICIAL STATEMENT DATED JUNE 5, 2012

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, under existing law, interest on the 2012B Bonds is excludable from gross income for federal income tax purposes and the 2012B 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 BONDS HAVE **NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

$12,180,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Permanent Improvement Refunding Bonds, Series 2012B

Dated: June 1, 2012 **Due: August 15, as shown below**
Interest to accrue from date of delivery.

The $12,180,000 City of Arlington, Texas, Permanent Improvement Bonds, Series 2012B (the "2012B 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 2012B 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 2012B Bonds purchased. Interest on the 2012B will accrue from their date of delivery to the Initial Purchasers (the "Delivery Date") and Bonds will be payable on February 15 and August 15 of each year, commencing August 15, 2012.

MATURITY SCHEDULE

(August 15) Maturity	Amount	Rate	Yield	CUSIP[(1)]	(August 15) Maturity	Amount	Rate	Yield	CUSIP[(1)]
2013	$ 65,000	1.000%	0.350%	041796FA6	2019	$ 1,215,000	3.000%	1.580%	041796FG3
2014	65,000	1.000%	0.500%	041796FB4	2020	1,195,000	3.000%	1.850%	041796FH1
2015	1,275,000	4.000%	0.680%	041796FC2	2021	1,175,000	4.000%	2.030%	041796FJ7
2016	1,255,000	4.000%	0.800%	041796FD0	2022	1,165,000	4.000%	2.180%	041796FK4
2017	1,250,000	2.000%	1.050%	041796FE8	2023	1,155,000	3.000%	2.450% (2)	041796FL2
2018	1,225,000	3.000%	1.400%	041796FF5	2024	1,140,000	3.000%	2.700% (2)	041796FM0

(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) Priced to the August 15, 2022 optional 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 2012B Bonds are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2012A" (the "2012A Bonds") and the "City of Arlington, Texas, Water and Wastewater Revenue Bonds, Series 2012" (the "Water and Wastewater Bonds"). The 2012B Bonds and the 2012A Bonds are being offered under a common Official Statement and are hereinafter sometimes referred to collectively as the "Obligations." The 2012A Bonds, 2012B Bonds and Water and Wastewater Bonds are separate and distinct securities offerings being issued and sold independently. While the 2012B Bonds, 2012A Bonds and Water and Wastewater 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 2012B Bonds having stated maturities on and after August 15, 2023, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on August 15, 2022, 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 2012B Bonds are offered for delivery when, as and if issued and received by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and of Bracewell & Giuliani LLP Bond Counsel. (See APPENDIX C "Form of Bond Counsel Opinion").

Delivery. It is expected that the 2012B Bonds will be delivered through the facilities of DTC on or about June 28, 2012.

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 Obligations 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 2012A BONDS .... The $31,320,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2012A, dated June 1, 2012, will be issued as serial bonds maturing on August 15 in each of the years 2013 through 2032. (see "THE OBLIGATIONS - General").

THE 2012B BONDS .... The $12,180,000 City of Arlington, Texas, Permanent Improvement Refunding Bonds, series 2012B, dated June 1, 2012, will be issued as serial bonds maturing on August 15 in each of the years 2013 through 2024. (see "THE OBLIGATIONS - General").

PAYMENT OF INTEREST .... Interest on the Obligations accrues from the date of initial delivery and will be paid on August 15, 2012, 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 2012A 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 an ordinance passed by the City Council authorizing the issuance of 2012A Bonds (the "2012A Ordinance" and together with the 2012B Ordinance, the "Ordinances").

The 2012B Bonds are authorized and issued pursuant to authority granted by the Constitution and the general laws of the State of Texas, including particularly 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 2012B Bonds (the "2012B Ordinance" and together with the 2012A Ordinance, the "Ordinances").

SECURITY FOR THE OBLIGATIONS .... The Obligations, 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.

OPTIONAL REDEMPTION.. .... The City reserves the right, at its option, to redeem Obligations having stated maturities on and after August 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2022, or any date thereafter, at the par value thereof to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

TAX EXEMPTION .... In the opinion of Bond Counsel, under existing law the interest on the Obligations will be excludable from gross income for federal income tax purposes, 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 2012A 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) acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes in the City; (iii) refunding $11,900,000 principal amount of outstanding Commercial Paper Notes (the "Refunded Commercial Paper Notes"); and (iv) paying the costs related to the issuance of the 2012A Bonds.

The proceeds from the sale of the 2012B Bonds are being used to provide funds for (i) refunding the Refunded Obligations associated with the 2012B Bonds listed on schedule I hereto for debt service savings; and (ii) paying the costs related to the issuance of the 2012B Bonds.

RATINGS .... The Bonds are rated "Aa1" by Moody's Investors Service ("Moody's"), "AA+" by Standard and Poor's Rating Services, a Standard and Poor's Financial Services LLC business ("S&P") and "AA+" by 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.

CITY OF ARLINGTON

Elected Officials

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	12 years [(1)]	May, 2013	Physician
Sheri Capehart Council Member	10 years [(2)]	May, 2014	Computer Security Analyst, Retired
Robert Rivera Council Member	6 years	May, 2013	Banker/Vice President
Kathryn Wilemon Mayor Pro Tem	8 years	May, 2013	Community Volunteer
Lana Wolff Council Member	10 Years	May, 2013	Community Volunteer
Robert Shepard Council Member	4 years	May, 2014	Attorney
Jimmy Bennett Council Member	4 years	May, 2014	Certified Public Accountant
Michael Glaspie Council Member	2 months [(3)]	May, 2013	Education Minister
District 1	Vacant		

(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.
(3) Was elected May, 2012. Will serve at-large for one year. The at-large seat will be up for election again in May 2013.

Appointed Officials

Name	Position	Years of Employment with City
Trey Yelverton	City Manager	19
Gilbert Perales	Deputy City Manager	5
April Nixon	Director, Finance and Management Resources	19
Jay Doegey	City Attorney	25
Mary Supino	City Secretary	2

ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors..Grant Thornton L.L.P., Dallas, Texas

Bond Counsel...Bracewell & Giuliani LLP, Dallas, Texas

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

For additional information regarding the City, please contact:

Ms. April Nixon Mr. Mike Finley City of Arlington 101 W. Abram Street, 3rd Floor Arlington, Texas (817) 459-6100	Mr. Dave Gordon Ms. Nicole Roberts Estrada Hinojosa & Company, Inc. 1717 Main Street, Suite 4700 Dallas, Texas (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 promise or guaranty by, the City of 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 HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OF QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT 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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TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY iv

CITY OFFICIALS, STAFF, CONSULTANTS vi

INTRODUCTION 1
THE ISSUER 1

THE OBLIGATIONS 1
AUTHORITY FOR ISSUANCE 1
GENERAL 1
SECURITY 2
USE OF PROCEEDS 2
REFUNDED OBLIGATIONS 2
REFUNDED COMMERCIAL PAPER NOTES 3
SOURCES AND USES 3
LEGAL MATTERS 3
PAYMENT RECORD 4
PAYING AGENT/REGISTRAR 4
AMENDMENTS 4
OPTIONAL REDEMPTION 4
NOTICE OF REDEMPTION 5
REDEMPTION PROCEDURES WHILE OBLIGATIONS HELD BY DTC 5
DEFEASANCE 5
HOLDERS' REMEDIES 6
REGISTRATION, TRANSFER AND EXCHANGE 7

BOOK-ENTRY-ONLY SYSTEM 8
USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT 9
EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM 9

LEGAL HOLDING AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 9

INVESTMENTS 10
LEGAL INVESTMENTS 10
INVESTMENT POLICIES 11
ADDITIONAL PROVISIONS 11
TABLE 1- CURRENT INVESTMENTS 12
TABLE 2 – AUTHORIZED PERMANENT IMPROVEMENT BONDS AND USE OF PROCEEDS 12
DEBT INFORMATION 13
TABLE 3 – KEY DEBT RATIOS 13
TABLE 4 - DEBT SERVICE REQUIREMENTS 14
TABLE 5 – COMPUTATION OF SELF-SUPPORTING DEBT 15
TABLE 6 – TAX ADEQUACY 15

GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM 16

ESTIMATED OVERLAPPING DEBT 16

TAX-SUPPORTED CAPITAL IMPROVEMENT PROGRAM 17

FINANCIAL INFORMATION 17
BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE 17
CERTIFICATE OF ACHIEVEMENT 17

ACCOUNTING STANDARDS 17
MEASUREMENT FOCUS AND BASIS OF ACCOUNTING 18

GENERAL FUND REVENUES AND EXPENDITURES 19

CERTAIN OPERATIONS OF THE GENERAL FUND 20

TABLE 7 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY 20
TABLE 8 – DEBT SERVICE FUND BUDGET 21

TAX DATA 21
GENERAL 21
AUTHORITY FOR AD VALOREM TAXATION 21
EFFECTIVE TAX RATE AND ROLLBACK TAX RATE 21
PROPERTY SUBJECT TO TAXATION 22
TAX INCREMENT FINANCING DISTRICTS 23
APPRAISAL OF TAXABLE PROPERTY 24
CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES 25
TAX LIMITATION ELECTION 25
TAX REVENUE 26
TABLE 9 – TAX RATE DISTRIBUTION AND COLLECTION RATIOS 26
TABLE 10 – TAX BASE DISTRIBUTION 26
TABLE 11 – TOP TEN TAXPAYERS 26
MUNICIPAL SALES TAX 27
TABLE 12 – MUNICIPAL SALES TAX HISTORY 27

PENSION FUND 27

OTHER POST-EMPLOYMENT BENEFITS 29
DISABILITY INCOME PLAN 30
SUPPLEMENTAL DEATH BENEFITS PLAN 30

CONTINUING DISCLOSURE OF INFORMATION 30
ANNUAL REPORTS 30
MATERIAL EVENT NOTICES 31
AVAILABILITY OF INFORMATION FROM MSRB 31
LIMITATIONS AND AMENDMENTS 31
COMPLIANCE WITH PRIOR UNDERTAKINGS 31

ADDITIONAL INFORMATION 32

TAX MATTERS 32
TAX EXEMPTION 32
ADDITIONAL FEDERAL INCOME TAX CONSEQUENCES 33

OTHER RELEVANT INFORMATION 34
RATINGS 34
LITIGATION 34
REGISTRATION AND QUALIFICATION 34
INITIAL PURCHASER OF THE 2012A BONDS 35
INITIAL PURCHASER OF THE 2012B BONDS 35
FINANCIAL ADVISOR 35
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS 35
FORWARD – LOOKING STATEMENTS 35
CERTIFICATION OF THE OFFICIAL STATEMENT 36
MISCELLANEOUS 36

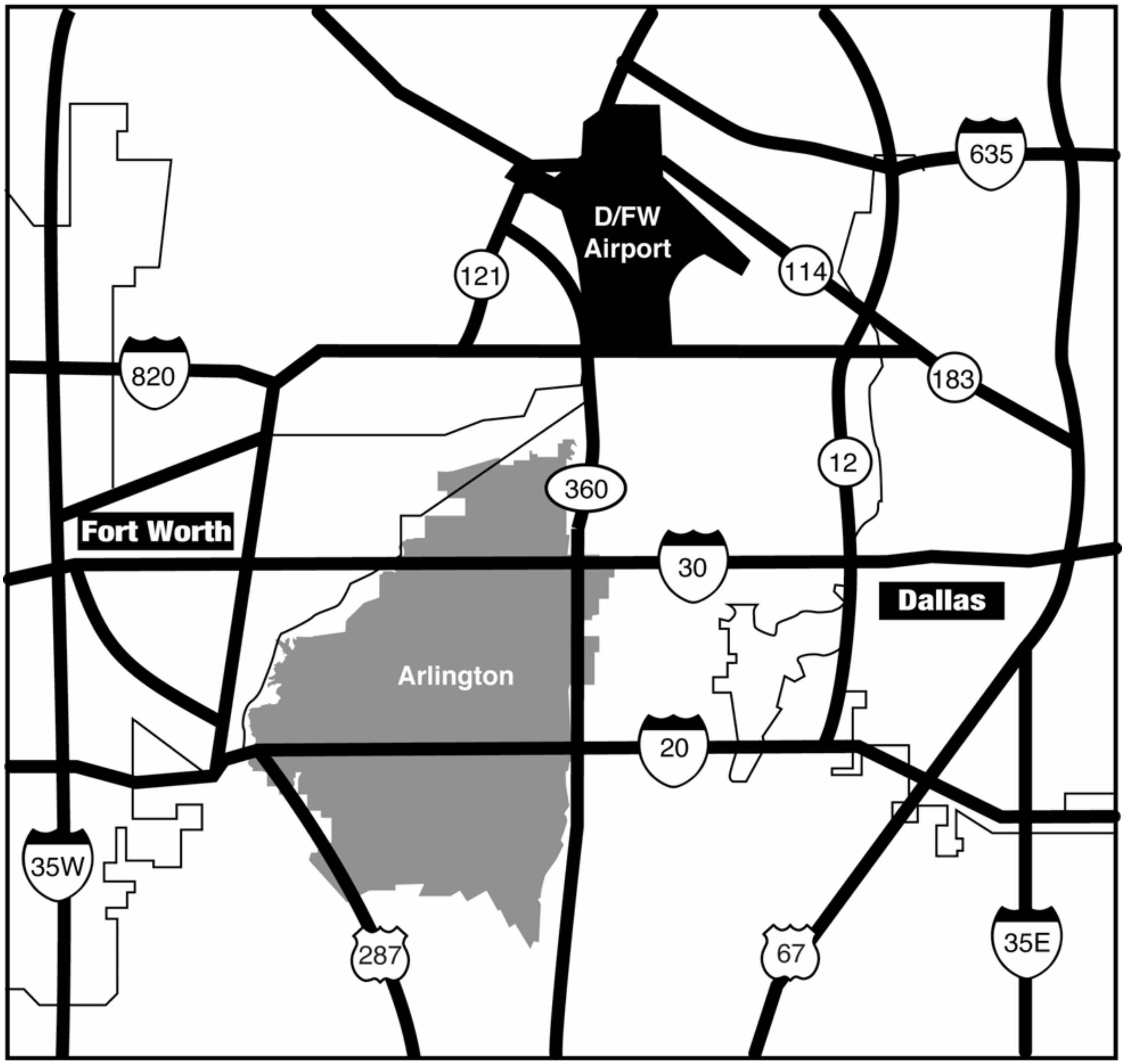
SCHEDULE 1 – Schedule of Refunded Obligations

APPENDIX A
General Information Regarding the City .... A

APPENDIX B
Audited Basic Financial Statements of the City of Arlington Year Ended September 30, 2011 .... B

APPENDIX C
Form of Bond Counsel Opinion C

Dallas/Fort Worth/Arlington Metropolitan Area



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CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)

$31,320,000
Permanent Improvement and Refunding Bonds, Series 2012A

and

$12,180,000
Permanent Improvement Refunding Bonds, Series 2012B

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 2011 estimated population of 368,854. The City operates as a home-rule City under a 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 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 2012A 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 an ordinance passed by the City Council authorizing the issuance of 2012A Bonds (the "2012A Ordinance").

The 2012B Bonds are authorized and issued pursuant to authority granted by the Constitution and the general laws of the State of Texas, including particularly 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 2012B Bonds (the "2012B Ordinance" and together with the 2012A Ordinance, the "Ordinances").

General

The $31,320,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2012A (the "2012A Bonds"), will be dated June 1, 2012, and will mature on the dates set forth on the cover of this Official Statement. Interest will accrue from the Date of Delivery and will be paid on August 15, 2012, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption. Interest will accrue from date of initial delivery.

$12,180,000 City of Arlington, Texas, Permanent Improvement Refunding Bonds, Series 2012B (the "2012B Bonds") will be dated June 1, 2012, and will mature on the dates set forth on page iii of this Official Statement. Interest will accrue from the Date of Delivery and will be paid on August 15, 2012, and on each February 15 and August 15 thereafter until maturity. Interest will accrue from date of initial delivery.

Security

The obligations, 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.

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 2012A 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) acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes; (iii) refunding $11,900,000 principal amount of outstanding Commercial Paper Notes (the "Refunded Commercial Paper Notes"); and (iv) paying the costs related to the issuance of the 2012A Bonds.

The proceeds from the sale of the 2012B Bonds are being used to provide funds for (i) refunding the Refunded Obligations associated with the 2012B Bonds listed on schedule I hereto; and (ii) paying the costs related to the issuance of the 2012B Bonds.

Refunded Obligations

A portion of the proceeds from the sale of the 2012B 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 Bank of New York Mellon N.A. (the "Escrow Agent"). The 2012B Ordinance provides that from the proceeds of the sale of the 2012B 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. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase obligations authorized by Chapter 1207, Texas Government Code, as amended (the "Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the City and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the City and its representatives and has not evaluated the assumptions or information used in the computations.

By the deposit of the Securities 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 report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Securities 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 2012A Bonds will be used to pay the $11,900,000 principal amount of commercial paper notes maturing on July 6, 2012 (the "Refunded Commercial Paper Notes"). The City will use $1,000,000 of lawfully available funds to pay the remaining principle outstanding of the 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. , Dallas, Texas (the "Issuing and Paying Agent" for the Refunded Commercial Paper Notes).

The 2012A Ordinance provides that from a portion of the proceeds of the sale of the 2012A 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 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 2012A Bonds	Series 2012B Bonds
Sources:		
Par amount of the Obligations	$ 31,320,000.00	$ 12,180,000.00
Net Premium	990,542.35	1,158,482.55
Cash Contribution	7,257.05 [1]	212,625.07
Total Sources of Funds	$ 32,317,799.40	$ 13,551,107.62
Uses:		
Deposit to Construction Fund	$ 20,000,000.00	$ -
Deposit to Escrow Fund for Refunded Obligations	-	13,327,756.42
Deposit for payment of Commercial Paper	11,907,258.05 [2]	-
Cost of Issuance	180,424.35	113,672.35
Underwriter's Discount	230,117.00	109,678.85
Total Uses of Funds	$ 32,317,799.40	$ 13,551,107.62

(1) The cash contribution is in the interest due on the Commercial Paper Notes maturing on July 6, 2012. The City rolled the commercial paper notes at an interest rate of 0.24% on April 4, 2012.

(2) A portion of the proceeds of the 2012A Bonds in the principal amount of $11,900,000 will be deposited at closing to refund the Commercial Paper Notes maturing on July 6, 2012. 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 Obligations are valid and legally binding obligations of the City and based upon examination of such transcript of proceedings, the approving legal opinions of Bracewell & Giuliani LLP, Bond Counsel, with respect to the Obligations being issued in compliance with the provisions of applicable law and the interest on the Obligations 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 Bank of New York Mellon, N.A., Dallas, Texas. Payments of principal and interest on the Obligations will be payable by Bank of New York Mellon, N.A., Dallas, 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 Obligations 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 Obligations, 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 Obligations, as applicable, over any other Obligations 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 Obligations scheduled to mature on or after August 15, 2023, prior to their scheduled maturities, in whole or in part, on August 15, 2022, 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.

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 Bonds 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 obligations 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 OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATIONS 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 a Standard & Poor's rating of AA+. 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 a) where the funds are invested by an investing entity through: (i) a broker that has its main office or a branch office in this state and is selected from a list adopted by the City; or (ii) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity; (b) where the broker or the depository institution selected by the investing entity under (a) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (iv) the investing entity appoints the depository institution selected by the investing entity under (a), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City, (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.

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Table 1 – Current Investments

As of March 31, 2012, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
Federal Agencies	92.690%
Statewide Pool	7.310%
Totals	100.000%

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 March 31, 2012, the weighted average maturity of the City's operating portfolio was 511 days and the market value of the operating portfolio was 100.0 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 2012A Bonds**	**Outstanding Commercial Paper** (1)	**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	75,235	-	8,400	-
2003 Traffic Management	400	-	-	-	400
2005 Park and Recreation	13,600	11,100	-	2,500	-
2008 Parks and Recreation	15,500	2,361	3,810	-	9,329
2008 Streets	103,735	22,674	16,190	-	64,871
2008 Library	500	-	-	-	500
2008 Fire	9,090	3,970	-	-	5,120
2008 Johnson Creek	12,000	-	-	-	12,000
Total	**$ 278,790**	**$ 151,200**	**$ 20,000**	**$ 12,900**	**$ 94,690**

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 $12,900,000 principal amount in commercial paper outstanding. The 2012A Bonds will refund $11,900,000 principal amount of previously issued commercial paper notes. The City plans to defease the remaining $1,000,000 principal amount in commercial paper outstanding on July 6, 2012, using available City funds.

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 [3]	Net Tax - Supported Principal Year Ended September 30 [4]	Ratio of Net Tax-Supported Debt: Per Capita	Ratio of Net Tax-Supported Debt: Assessed Valuation
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 [2]	18,251,104,674	297,918,552	815	1.63%
2011	368,854	17,179,112,309	272,867,302	740	1.59%
2012	372,543	17,323,444,005	306,541,952	823	1.77%

Source: City Financial and Management Resources Department.

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

(2) 2010 Census population. Decrease in population due to overestimation in non-census years.

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

(4) Includes the 2012A Bonds and 2012B Bonds. Does not include the Refunded Obligations and 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.

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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 2012A Bonds		The Series 2012B Bonds		Less: Refunded Obligations		Less: Self-Supporting Debt Service [1]	Net Tax Supported Debt Service Requirements	Percentage of Principal Retired
9/30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2012	$ 27,370,000	$ 13,034,574	$ -	$ 122,147	$ -	$ 52,092	$ -	$ 267,463	$ 2,317,439	$ 37,993,911	
2013	26,690,000	12,019,748	1,570,000	935,594	65,000	399,000	-	534,925	2,317,879	38,826,537	
2014	27,455,000	10,989,765	1,570,000	888,494	65,000	398,350	-	534,925	2,446,563	38,385,121	
2015	27,205,000	9,916,901	1,565,000	841,394	1,275,000	397,700	1,210,000	534,925	2,574,553	36,881,517	
2016	25,605,000	8,812,635	1,565,000	794,444	1,255,000	346,700	1,205,000	485,013	2,629,217	34,059,549	40.45%
2017	23,715,000	7,771,953	1,570,000	755,319	1,250,000	296,500	1,205,000	433,800	2,712,689	31,007,282	
2018	19,845,000	6,755,811	1,570,000	716,069	1,225,000	271,500	1,205,000	382,588	2,855,145	25,940,648	
2019	18,570,000	5,920,879	1,570,000	676,819	1,215,000	234,750	1,205,000	329,869	3,113,884	23,538,695	
2020	15,830,000	5,152,325	1,565,000	637,569	1,195,000	198,300	1,205,000	275,644	2,326,953	20,770,597	
2021	14,195,000	4,494,871	1,565,000	598,444	1,175,000	162,450	1,205,000	221,419	2,905,482	17,858,864	69.18%
2022	12,955,000	3,908,761	1,565,000	559,319	1,165,000	115,450	1,205,000	167,194	3,446,915	15,449,421	
2023	11,805,000	3,364,089	1,565,000	520,194	1,155,000	68,850	1,205,000	111,463	3,515,037	13,646,633	
2024	10,675,000	2,849,294	1,565,000	473,244	1,140,000	34,200	1,205,000	55,731	3,821,101	11,654,905	
2025	9,540,000	2,387,390	1,565,000	426,294	-	-	-	-	4,148,554	9,770,130	
2026	9,625,000	1,969,526	1,565,000	379,344	-	-	-	-	4,495,985	9,042,885	87.06%
2027	9,205,000	1,544,779	1,565,000	332,394	-	-	-	-	4,845,137	7,802,036	
2028	8,210,000	1,137,329	1,565,000	254,144	-	-	-	-	5,237,921	5,928,552	
2029	6,010,000	794,304	1,565,000	205,238	-	-	-	-	5,656,434	2,918,107	
2030	4,185,000	550,925	1,565,000	156,331	-	-	-	-	3,602,979	2,854,277	
2031	3,225,000	367,313	1,565,000	105,469	-	-	-	-	2,651,896	2,610,885	98.17%
2032	2,355,000	222,925	1,560,000	52,650	-	-	-	-	2,574,497	1,616,078	
2033	2,465,000	114,006	-	-	-	-	-	-	2,574,461	4,545	100.00%
	$ 316,735,000	$ 104,080,101	$ 31,320,000	$ 10,430,909	$ 12,180,000	$ 2,975,842	$ 12,055,000	$ 4,334,956	$ 72,770,721	$ 388,561,175	

[1] Self-Supporting debt includes a portion of the Combination Tax and Revenue Certificates of Obligation, Series 2001B, a portion of the Permanent Improvement Refunding Bonds, Series 2005, the Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B, Combination Tax and Revenue Certificates of Obligation Series 2009A and 2009B, Combination Tax & Revenue Certificates of Obligations, Series 2010 and the Combination Tax & Revenue Certificates of Obligations, Series 2011. 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. See "Table 5 – Computation of Self-Supporting Debt."

Table 5 - Computation of Self-Supporting Debt (1)

Hotel Occupancy Tax Revenue (2)		
Gross Hotel Occupancy Tax Revenues for Fiscal Year ended 9-30-11	$	6,065,421
Debt Service Requirements for Hotel Occupancy Tax Revenue Debt FY 2011		1,359,603
Percent of Tax Increment Self-Supporting		100%
Water and Wastewater System (WWS) Revenues		
Revenue Available for Debt Service from WWS Revenues, FY end 9-30-11	$	44,677,000
Less: Revenue Bond requirements, FY 2011		19,706,000
Balance Available for Other Purposes		24,971,000
Debt Service Requirements for Water for Portions of CO 2001 A and B, FY 2011		72,248
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, 9-30-11	$	400,898
Beginning Fund Balance TIRZ 5 Surrounding, 9-30-11		104,705
Tax Revenue TIRZ 5 Core, FY 2011		191,590
Tax Revenue TIRZ 5 Surrounding, FY 2011		259,396
Total Balance Available for Debt Service FY 2011		956,589
Debt Service Requirements for TIRZ 5, FY2011		1,567,781
Percentage of TIRZ 5 Obligations Self-Supporting		61%
Tax Increment Reinvestment Zone 4 (TIRZ 4)		
Beginning Fund Balance TIRZ 4, 9/30/11		4,662,773
Tax Revenue TIRZ 4, FY 2011		1,501,511
Total Balance Available for Debt Service FY2011		6,164,284
Debt Service Requirement for TIRZ 4, FY 2011		933,850
Percentage of TIRZ 4 Obligations Self-Supporting		100%
Total Debt Service Requirements, FY 2011	$	3,933,482

(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 Permanent Improvement 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 2012 Net Assessed Valuation.

Average Annual Requirement (2012 - 2033) ……………..…………	$ 17,661,872
A tax rate of $0.1049 per $100 assessed valuation produces ………	17,661,872
Average Annual Requirement (10 year) (2012 - 2021) ………………	30,526,272
A tax rate of $0.1813 per $100 assessed valuation produces ………	30,526,272
Maximinum Annual Requirement (2013) ……………………………	38,826,537
A tax rate of $0.2306 per $100 assessed valuation produces ………	38,826,537

(1) Amounts do not include the outstanding principal amount of commercial paper, self supporting debt 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 $12,900,000 principal amount in Commercial Paper Notes outstanding (see "Table 2 – Authorized Permanent Improvement Bonds and Use of Proceeds"). $11,900,000 principal amount of commercial paper will be refunded with the issuance of the 2012A Bonds. The City will cash defease $1,000,000 principal amount of commercial paper on July 6, 2012. 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 was 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 9/30/2011 [(1)]	Percent	Amount Overlapping
Arlington ISD	$ 467,278,000	77.90%	$ 364,010,000
Hurst-Euless-Bedford ISD	342,772,000	0.58%	1,988,000
Kennedale ISD	51,729,000	51.52%	26,651,000
Mansfield ISD	699,241,000	29.92%	209,213,000
Tarrant Co	335,050,000	14.87%	49,822,000
Tarrant Co College Dist	30,588,000	14.87%	4,548,000
Tarrant Co Hosp Dist	58,656,000	14.85%	8,709,000
Total Net Overlapping Debt			$ 664,941,000
Arlington, City of [(2)]			$ 306,541,952
Total Direct and Overlapping Debt			$ 971,482,952
Total Direct and Overlapping Debt % of AV			5.66%
Total Direct and Overlapping Debt % of Capita			$ 2,634

(1) Source: Municipal Advisory Council, net debt outstanding per representative of each jurisdiction.

(2) Includes the Obligations and excludes 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 $114,690,000 in unissued permanent improvement bonding authority. Prior to the issuance of the Obligations (see "Table 2 - Authorized Permanent Improvement Bonds and Use of Proceeds").

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 $33,900,000. 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, 2010. 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 2010. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2010.

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:

<u>1. Governmental Funds:</u>

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.

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, 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.

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.

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.

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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 2007 to 2011 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, 2011, the General Fund had revenues greater than expenditures and transfers by $208,000 or 0.11% percent of General Fund revenues, leaving a General Fund balance at September 30, 2011, of $66,775,000. The following table presents a comparison of the City's General Fund balance for fiscal years 2007 to 2011.

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

	Fiscal Years Ended September 30,				
	2011	**2010**	**2009**	**2008**	**2007**
Beginning Fund Balance	$ 66,567	$ 58,281	$ 56,189	$ 60,346	$ 66,114
Revenues					
Taxes	122,816	127,350	128,231	125,301	122,230
Franchise Fees [(1)]	27,260	25,769	25,038	25,994	29,145
Service Charges	6,904	5,091	4,371	4,386	5,668
Interest	2,009	956	1,854	3,299	4,549
All Other	30,281	30,878	27,850	23,373	19,008
Total Revenues	$ 189,270	$ 190,044	$ 187,344	$ 182,353	$ 180,600
Expenditures					
Total Expenditures	$ 189,505	$ 186,835	$ 191,612	$ 190,713	$ 179,882
Net Expenditures Over (Under) Expenditures	(235)	3,209	(4,268)	(8,360)	718
Other Financing Sources					
Issuance of Capital Leases					
Operating Transfers	443	5,077	6,360	4,203	(6,486)
Ending Fund Balance	$ 66,775	$ 66,567	$ 58,281	$ 56,189	$ 60,346
General Fund Balance as a Percent of General Fund Expenditures	35.24%	35.63%	30.42%	29.46%	33.55%

(1) Prior to FY 2008, Franchise fees received from the Water and Wastewater System were included in Franchise Fees. Beginning in FY 2008, they are included in Operating Transfers.
Source: Fiscal Year 2011 Audited Financial Statements.

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The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2012, as reported in the adopted Budget.

Table 8 - DEBT SERVICE FUND BUDGET
Fiscal Year 2012

Beginning Balance	$ 4,773,997
Total Revenue	36,079,873
Transfers In [(1)]	4,058,884
Total Available for Debt Service	44,912,754
Debt Service Expenditures	(41,565,050)
Estimated Ending Fund Balance	$ 3,347,704

Source: Fiscal Year 2012 Budget and Fiscal Year 2011 Audited Financial Statements.

(1) Includes transfers to the Debt Service Fund from the Convention and Event Service Fund, Park Performance Fund, TIRZ 5, TIRZ 4, ATF Airport interest earnings and Water and Wastewater surplus revenues.

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 2012, the Council has levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2087 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 FYE 2012 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $951,717,388.

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 2012 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 2012 tax roll, which totaled $1,821,605,408 or 10.5 percent of the FY 2012 taxable assessed valuation. In addition, $65,644,314 of value was reduced from the FY 2012 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.

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 2012 tax roll reveals an exempt value 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 2012 tax roll is $357,445,162. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

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 value abated on the FY 2012 tax roll is $53,148,793 out of $23,403,563,399 or 0.23%.

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 2012 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.

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 68,497 residential homestead properties in FY 2012 and 16,032 of these properties received an exemption for a disabled individual or individual 65 years of age or older.

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Tax Revenue

The following table shows the City's principal tax revenues by source for each of the last five fiscal 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
2008	$ 17,591,230,061	$ 0.4467	$ 0.2013	$ 0.6480	$ 113,991,171	97.73	99.68
2009	18,246,819,671	0.4467	0.2013	0.6480	118,239,391	98.40	100.17
2010	18,251,104,674	0.4467	0.2013	0.6480	118,267,158	97.87	99.39
2011	17,179,112,308	0.4330	0.2150	0.6480	111,320,648	98.00	99.39
2012 (1)	17,323,444,005	0.4393	0.2087	0.6480	110,010,799	95.50 (3)	94.80 (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. Estimated 2012 Tax Levy calculated at 98%.

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

(3) As of May 2012.

Table 10 - Tax Base Distribution
Fiscal Years 2008 to 2012

	2012	2011	2010	2009	2008
Residential	61.2%	60.4%	60.1%	60.6%	62.4%
Commercial, Industrial, Retail	36.7%	37.4%	38.1%	37.5%	35.7%
Undeveloped	2.2%	2.3%	1.8%	1.9%	1.9%

Source: City Financial and Management Resources Department.

Table 11 - Top Ten Taxpayers (1)

Employer	Type of Business	FY 2011 Assessed Valuation
General Motors Corporation	Automobile Assembly	$ 193,199,696
Chesapeake Operating	Natural Gas Producer	189,425,480
Oncor Electric Delivery Co.	Public Utility	142,616,036
Parks @ Arlington	Real Estate Holdings	140,258,067
Arlington Highlands	Retail	112,691,550
Six Flags Fund	Amusement Park	75,633,646
Quicksilver Resources Inc.	Natural Gas Producer	65,602,630
Wal-Mart Real Estate	Retail	60,580,492
Southwestern Bell	Public Utility	55,010,430
USMD Surgical Hospital	Healthcare	52,837,421
Total		**$ 1,087,855,448**
Above ten taxpayers as % of total tax rolls		6.28%
Total tax roll		$ 17,323,444,005

(1) Source: Fiscal Year 2011 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
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	46,875,684	118,267,158	40%	365,438 [(2)]	128
2011	48,982,079	111,143,006	44%	372,543	131

(1) Receipts reflect the City's 1% sales tax.
(2) 2010 Census population. Decease in population due to overestimation in non-census years.
Source: FY 2011 Annual Financial Report

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, 2010 valuations are contained in the 2010 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 2010, and 17.16% for the months in calendar year 2011. 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, 2009 valuation is effective of rates beginning January 1, 2011). 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, 2010, the most recent actuarial valuation date, the plan was 82.7 percent funded. The actuarial accrued liability for benefits was $832,168,294, and the actuarial value of assets was $688,014,565, resulting in an unfunded actuarial accrued liability (UAAL) of $144,153,729. The covered payroll (annual payroll of active employees covered by the plan) was $142,874,528, and the ratio of the UAAL to the covered payroll was 100.9%.

Actuarial Methods and Assumptions

Actuarial Valuation Date:	December 31, 2010
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll
Remaining Amortization Period:	27.1 Years – Closed Period
Asset Valuation Method:	Amortized Cost
Investment Rate of Return:	7.0%
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	1.5%

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $28,051,791 was $3,451,009 higher than the City's contributions.

Annual required contribution (ARC)	$ 27,938,432
Interest	998,631
Adjustment to the ARC	(885,272)
Annual pension cost (expense)	28,051,791
Contributions made	24,600,782
Increase (Decrease) in net pension obligation	3,451,009
Net pension obligation beginning of the year	14,266,151
Net pension obligation end of the year	$ 17,717,160

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
2007	$ 15,164,348	100.0%	-
2008	19,486,546	100.0%	-
2009	29,582,321	75.4%	7,287,773
2010	30,852,449	77.4%	14,266,151
2011	28,051,791	87.7%	17,717,160

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, 2011, 637 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)	$ 8,658
Interest on Net OPEB Obligation	768
Adjustment to the ARC	(1,047)
Annual pension cost (expense)	8,379
Contributions made	(4,704)
Increase (Decrease) in OPEB obligation	3,675
Net OPEB obligation beginning of the year	17,056
Net OPEB obligation end of the year	$ 20,731

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 are as follows (dollar amounts in thousands).

Fiscal Year Ending 9/30	OPEB Cost	Annual OPEB Contribution	OPEB Obligation
2011	8,379	56.14%	20,731

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, 2011, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving benefits	33
Active plan members	2,298
Total	2,331

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 preceding 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. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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.

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(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 Bracewell & Giuliani LLP, Bond Counsel, under existing law, (i) interest on the Obligations is excludable from gross income for federal income tax purposes, 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 should be 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 Bonds are rated "Aa1" by Moody's, "AA+" by S&P and "AA+" by Fitch. The City's presently outstanding tax supported debt of the City has underlying ratings 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 accrued a $1,250,000 liability for the fiscal year ended September 30, 2011 to account for agreed-upon settlement of an APFA lawsuit filed against the City in 2002. The City paid the settlement amount in January, 2012, to a bankruptcy trustee with the understanding that after collection of the judgement and repayment of creditors, any excess amount would be returned to the City.

The City is currently involved in several lawsuits that are in appeals, with potential liability for the City; 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 of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position as a whole.

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 2012A Bonds

After requesting competitive bids for the 2012A Bonds, the City accepted the bid of Frost Bank Capital Markets (the "2012A Initial Purchaser") to purchase the 2012A Bonds at the interest rates shown on the cover page of the Official Statement at a price of 102.428% of par. The 2012A Initial Purchaser can give no assurance that any trading market will be developed for the 2012A Bonds after their sale by the City to the 2012A Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the 2012A Bonds will be priced and reoffered will be established by and will be the responsibility of the 2012A Initial Purchaser.

Initial Purchaser of the 2012B Bonds

After requesting competitive bids for the 2012B Bonds, the City accepted the bid of Hutchinson, Shockey, Erley & Company (the "2012B Bonds Initial Purchaser") to purchase the 2012B Bonds at the interest rates shown on page (iii) of the Official Statement at a price of 108.611% of par. The 2012B Bonds Initial Purchaser can give no assurance that any trading market will be developed for the 2012B Bonds after their sale by the City to the 2012B Bonds Initial Purchaser. The City has no control over the price at which the 2012B Bonds are subsequently sold and the initial yield at which the 2012B Bonds will be priced and reoffered will be established by and will be the responsibility of the 2012B Bonds Initial Purchaser.

Financial Advisor

Estrada Hinojosa & Company, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Verification of Arithmetical and Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by Estrada Hinojosa & Company, Inc. on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Securities and the forecasted payments of principal and interest to redeem the 2012B Bonds and (b) computation of the yields of the 2012B Bonds and the restricted Securities will be verified by Grant Thornton LLP, certified public accountants. Such computations will be based solely on assumptions and information supplied by Estrada Hinojosa & Company, Inc. on behalf of the City. Grant Thornton LLP will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations will be based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

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, 2011, 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

Obligations Refunded with the 2012A Bonds:

Commercial Paper Notes [1]

Original Dated Date	Original Maturity Date	Interest Rates	Amount
4/4/2012	7/6/2012	0.240%	$ 11,900,000
			$ 11,900,000

[1] The Commercial Paper notes will be paid at maturity on July 6, 2012 at par.

Obligations Refunded with the 2012B Bonds:

Permanent Improvement Bonds, Series 2004 [1]

Original Dated Date	Original Maturity Date	Interest Rates	Amount
6/1/2001	8/15/2015	4.125%	1,210,000
	8/15/2016	4.250%	1,205,000
	8/15/2017	4.250%	1,205,000
	8/15/2018	4.375%	1,205,000
	8/15/2019	4.500%	1,205,000
	8/15/2020	4.500%	1,205,000
	8/15/2021	4.500%	1,205,000
	8/15/2022	4.625%	1,205,000
	8/15/2023	4.625%	1,205,000
	8/15/2024	4.625%	1,205,000
			$ 12,055,000
	Total Refunded Obligations		$ 23,955,000

[1] The 2015 - 2024 maturities will be redeemed prior to original maturity on August 15, 2014 at par.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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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.

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ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2011 estimated census population for the City of Arlington is 368,854. The following table presents population figures for selected years.

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

Year		Arlington	Annual Rate of Change	United States	Annual Rate of Change
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%
2012	(2)	372,543	0.00%	316,825,100	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 1% 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. For 2012, the City's unemployment rate averaged 6.9 percent compared to the U.S. rate of 8.7 percent and the Texas rate, which was 7.2 percent.

Unemployment Rate
Annual Average Rates
2008 to 2012

	2012	2011	2010	2009	2008
Arlington	6.9%	8.1%	7.8%	7.1%	4.5%
Texas	7.2%	8.2%	8.2%	7.5%	4.8%
United States	8.7%	9.0%	9.4%	9.3%	5.8%

Source: U.S. Bureau of Labor Statistics
(1) City of Arlington

Arlington Major Employers (1)

Employer	Type of Business	Number of employees
Arlington Independent School District	Public Education	8,000
University of Texas at Arlington	Higher Education	5,300
Six Flags Over Texas	Amusement Park	3,800
The Parks at Arlington	Retail	3,500
City of Arlington	Municipality	2,466
General Motors	Automobile Assembly	2,400
Texas Resource Health - AMH	Medical Center	2,000
Chase Bank	Banking Services	1,965
Texas Rangers Baseball Club	Major League Baseball	1,881
Wal-Mart	Retail	1,385
Total		**32,697**

(1) Arlington Chamber of Commerce as of September, 2011. Includes part-time and peak seasonal employees.

Building Permits

During the FY 2011 the City issued 5,510 building permits with a total value of $216,848,000. Presented below is a table covering building permit activity for the last four years:

	2011		2010		2009		2008		2007	
	Permits	Value (000's)	Permits	Value (000's)	Permits	Value (000's)	Permits	Value (000's)	Permits	Value (000's)
New Single Family	1,750	$ 53,873	1,533	$ 53,054	1,384	$ 58,559	1,838	$ 91,597	2,237	$ 147,130
New Multifamily	1	9,428	-	-	2	2,605	11	35,620	1	11,000
New Commercial	771	150,630	764	112,241	720	202,377	796	197,338	730	125,151
Other (Additions, etc.)	2,988	2,917	2,279	8,506	2,500	3,107	3,264	4,793	2,996	2,994
Grand Total	5,510	216,848	4,576	173,801	4,606	266,648	5,909	329,349	5,964	286,275

Source: City of Arlington Building Inspections Division

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APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF ARLINGTON FISCAL YEAR 2011

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Grant Thornton

Report of Independent Certified Public Accountants

Audit • Tax • Advisory
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The Honorable Mayor, City Council and City Manager
The City of Arlington, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority or the Arlington Convention and Visitors Bureau, Inc., which are discretely presented component units which represent 10%, 11%, and 70%, respectively, of assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors. The financial statements of the City as of September 30, 2010, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 4, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arlington Convention and Visitors Bureau, Inc., audited by other auditors were not audited in accordance with *Government Auditing Standards*. 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 financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 16, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress – TMRS, the Schedule of Funding Progress – Part-Time Deferred Income Trust Plan, the Schedule of Funding Progress – Disability Income Plan, and the Schedule of Funding Progress – Postemployment Healthcare Plan on pages 73 through 77, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining financial statements, the schedules of capital assets used in the operation of governmental funds, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules of capital assets used in the operation of governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas
March 7, 2012

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

SEPTEMBER 30, 2011

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, 2011. 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 **decreased** by $12.4M (1.0%) this year, primarily due to a net decrease in cash and cash equivalents.

  - The City's **increase** in total net assets of $19.0M for the year was $70.7M lower than the $89.7M increase last year. This variance is partly attributable to the completion of the Cowboys Stadium Project. Last year contributions from the project were $37.3M. Because the project was compelted in 2010, there were no contributions in 2011. Additionally, last year $27.7M was included in contribution income related to the one time transfer of assets from the dissolved component unit, Arlington Sports Facilities Development Authority, Inc., to the General Fund.

  - The City's governmental funds reported combined ending fund balances of $236M, a **decrease** of $17.2M over last year. This decrease is due to:

    - A $20.6M decrease in the Debt Service Fund, primarily due to the mandatory redemption of special tax revenue debt (Cowboys) and interest expenses, offset by a $.2M increase in the General Fund balance. The General Fund increase was due in part to conservative spending and a $7.8M increase in the Street Maintenance Fund balance. The increase in Street Maintenance is due to a bond issue; the proceeds of which are restricted to streets capital projects.

  - The 2011 General Fund assigned fund balance was $57.8M and unassigned fund balance was $6.1M, an **increase** in the aggregate from prior year. In 2010, the comparable balances were $57M and $3.6M. Total assigned and unassigned fund balance of $63.9M is $3.3M higher than last year primarily due to the reclassification of some items of fund balance from reserved fund balance to assigned fund balance as required by the GASB statement 54. Under this statement, fund balance classifications changed effective with fiscal year 2011. In addition, the arbitrage and group health designations were eliminated and the amount assigned to business continuity decreased by $2.4M.

  - Total debt of $738M **decreased** $14.3M during the year. Debt issues in 2011 include $54.57M in Permanent Improvement and Refunding bonds, $1.77M in Certificates of Obligation, $13.9M and $3.3M in Water and Wastewater System Revenue and Refunding bonds, and $25.6M in Municipal Drainage Utility System Revenue Bonds. Bond principal payments for 2011 total $44.98M on existing obligations and $68.43M was refunded. Debt is allocated 80% for general government, with the remaining 20% to water, wastewater and storm water 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 with financial activity in 2011 in its report – Arlington Property Finance Authority, Inc. For fiscal year 2011, the City includes five discretely presented component units in its report – 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.

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-one 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, and the Streets Capital Projects 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 and postemployment healthcare to the employees.

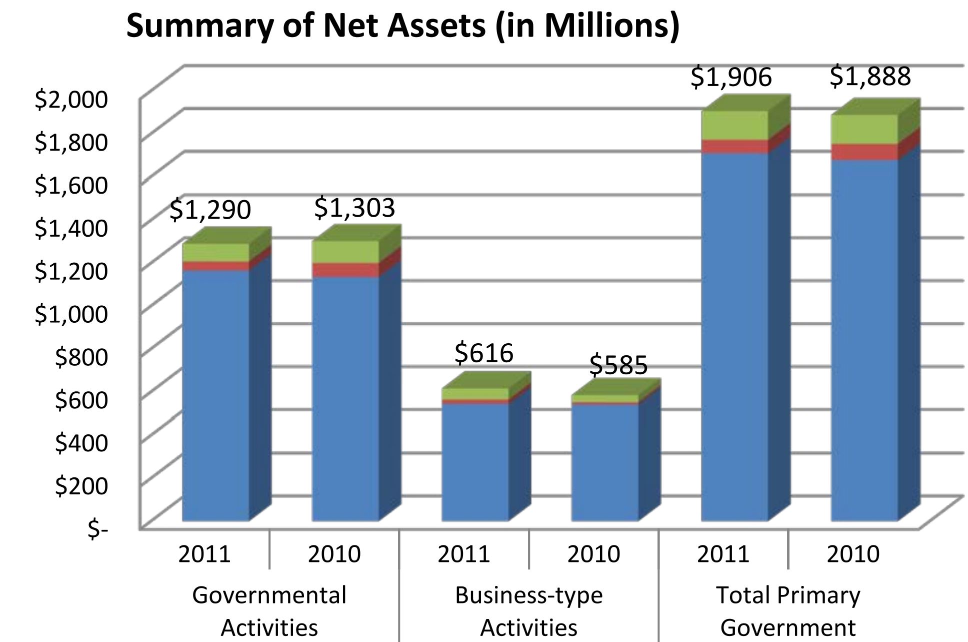
THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $1.9B as of September 30, 2011. 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 $616M. This analysis focuses on the net assets and changes in general revenues and significant expenses of the City's governmental and business-type activities.

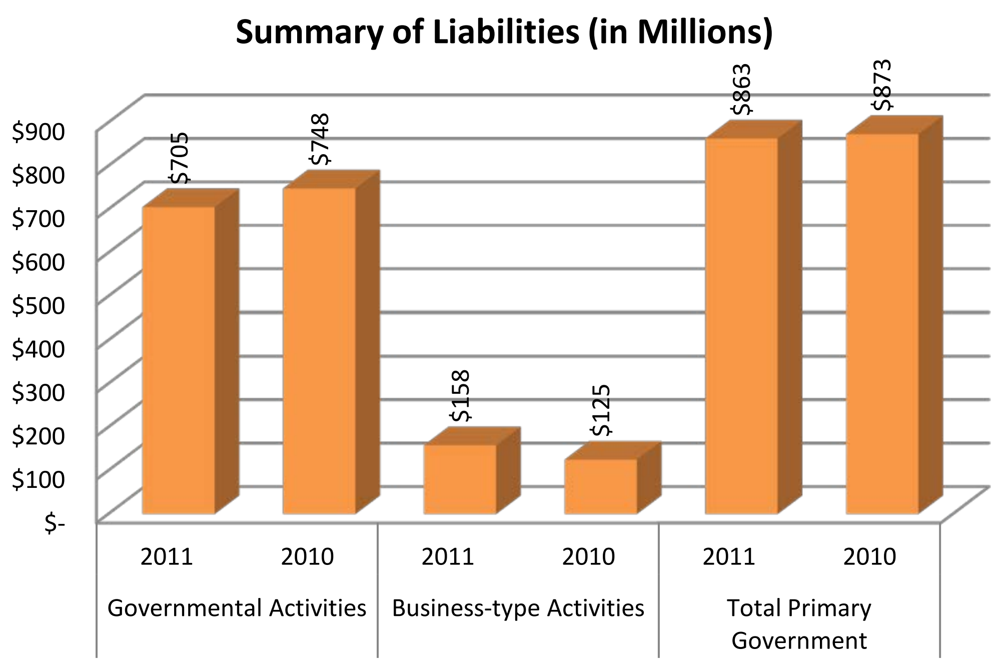
Table 1
Summary of Net Assets
(Amounts Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Current and other assets	$ 346	$ 372	$ 146	$ 102	$ 492	$ 474
Capital assets	1,649	1,679	628	608	2,277	2,287
Total assets	1,995	2,051	774	710	2,769	2,761
Long-term liabilities	622	659	135	102	757	761
Other liabilities	83	89	23	23	106	112
Total liabilities	705	748	158	125	863	873
Net assets:						
Invested in capital assets, net of related debt	1,165	1,136	544	541	1,709	1,677
Restricted	43	65	20	11	63	76
Unrestricted	82	102	52	33	134	135
Total net assets	$1,290	$ 1,303	$ 616	$ 585	$ 1,906	$ 1,888

By far the largest portion of the City's net assets (89.7%) 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.

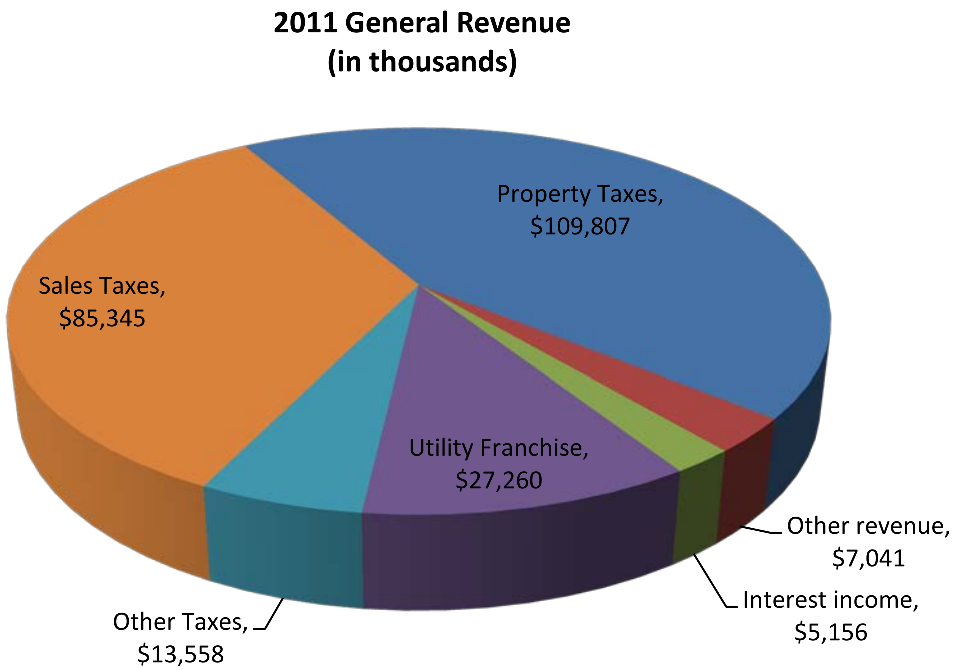


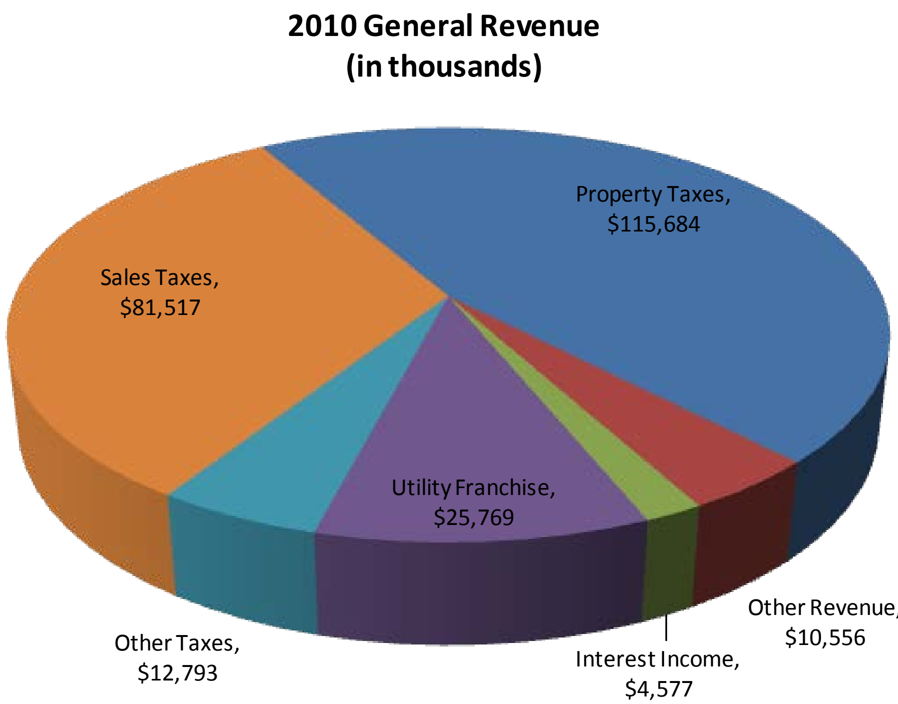
	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total Primary Government 2011	Total Primary Government 2010
Unrestricted	$82	$102	$52	$33	$134	$135
Restricted	$43	$65	$20	$11	$63	$76
Investment in Capital	$1,165	$1,136	$544	$541	$1,709	$1,677



Governmental Activities

The City's general revenues decreased one percent ($2.9M) compared to the prior year. The primary reason for the decrease was a $5.9M decrease in property taxes offset by a $3.8M increase in sales tax revenue.





The assessed value of real and personal property in the City decreased by $1.1B or 5.9%. The property tax rate of $0.6480 per $100 assessed valuation remained the same as in 2010.

Governmental activities decreased the City's net assets by $12.4M, while Business-type activities increased net assets by $31.3M, for a net increase of $18.9M. 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	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	$60,058	$55,540	$ 133,934	$ 116,502	$ 193,992	$ 172,042
Operating grants and contributions	23,455	23,127	-	-	23,455	23,127
Capital grants and contributions	2,625	72,515	1,120	1,388	3,745	73,903
General Revenues:						
Taxes	208,710	209,994	-	-	208,710	209,994
Utility franchise fees	27,260	25,769	-	-	27,260	25,769
Interest income	5,156	4,577	855	895	6,011	5,472
Other	7,041	10,556	(105)	(41)	6,936	10,515
Total revenues	334,305	402,078	135,804	118,744	470,109	520,822
Expenses:						
General government	74,285	70,517	-	-	74,285	70,517
Public safety	135,371	134,767	-	-	135,371	134,767
Public works	71,828	67,135	-	-	71,828	67,135
Public health	3,892	3,003	-	-	3,892	3,003
Parks and recreation	28,663	28,020	-	-	28,663	28,020
Public welfare	11,897	12,251	-	-	11,897	12,251
Convention and event services	6,194	6,321	-	-	6,194	6,321
Interest and fiscal charges	29,890	29,444	-	-	29,890	29,444
Water, sewer and storm water	-	-	89,131	79,619	89,131	79,619
Total expenses	362,020	351,458	89,131	79,619	451,151	431,077
Increase (decrease) in net assets before transfers	(27,715)	50,620	46,673	39,125	18,958	89,745
Transfers & capital contributions	15,348	13,693	(15,348)	(13,693)	-	-
Increase (decrease) in net assets	(12,367)	64,313	31,325	25,432	18,958	89,745
Net Assets, October 1,	1,302,528	1,238,215	584,637	559,205	1,887,165	1,797,420
Net Assets, September 30	$ 1,290,161	$ 1,302,528	$ 615,962	$ 584,637	$ 1,906,123	$ 1,887,165

The decrease in capital grants and contributions compared to prior year is partly the result of contributions from the Cowboys Stadium, L.P. for construction of the Cowboys Project received in 2010, as discussed above. Additionally, in 2010, $27.7M was included in contribution income related to the one time transfer of assets from the dissolved component unit, Arlington Sports Facilities Development Authority, Inc., to the General Fund.

Increases in general government expenses in fiscal year 2011 of $3.8M are due primarily to $2.5M in expenses for the Super Bowl held in February 2011. These expenses were fully offset by reimbursements from event organizers.

The increase in expenses of $4.7M in public works was due to an increase in capital projects undertaken during this fiscal year compared to the previous year.

Revenue and expense variances in business activities (Water and Wastewater/Storm Water Utility) were due to record-breaking heat and drought conditions which created an increase in water usage. This increase caused revenues to be higher along with related increases in expenses to purchase water and wastewater services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

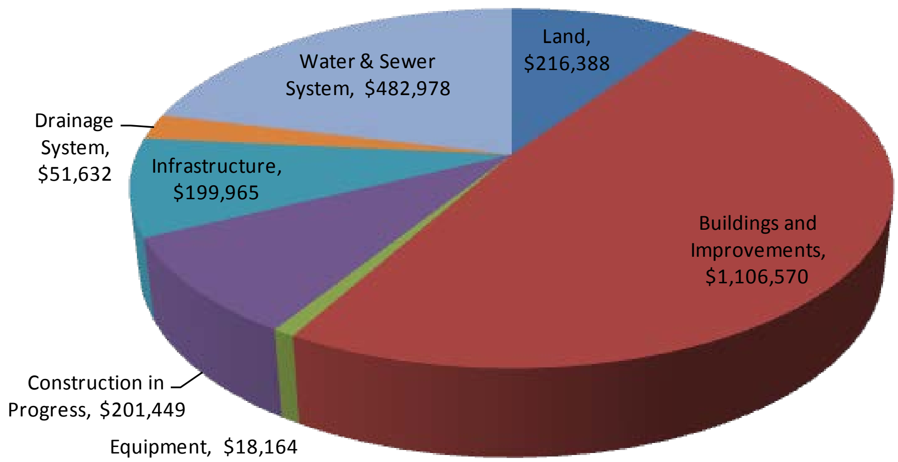
At the end of the fiscal year 2011, the City had $2.28B invested in a broad range of capital assets. This amount represents a net decrease (including additions and deductions) of $10.1M or .4% from the prior fiscal year. The decrease is comprised of a $30.6M decrease in governmental activities and a $20.5M increase in business-type activities. This year's net decrease is related to typical, ongoing improvements of City infrastructure and replacement of machinery and equipment along with related depreciation. 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	
	2011	2010	2011	2010	2011	2010
Land	$ 209,397	$ 208,407	$ 6,991	$ 6,696	$ 216,388	$ 215,103
Buildings and improvements	1,104,979	1,121,027	1,593	1,649	1,106,572	1,122,676
Equipment	17,153	19,139	1,011	1,036	18,164	20,175
Construction in progress	117,637	125,869	83,812	73,503	201,449	199,372
Infrastructure	199,965	205,264	-	-	199,965	205,264
Drainage system	-	-	51,632	51,558	51,632	51,558
Water and sewer system	-	-	482,978	473,080	482,978	473,080
Totals	$ 1,649,131	$ 1,679,706	$ 628,017	$ 607,522	$ 2,277,148	$ 2,287,228

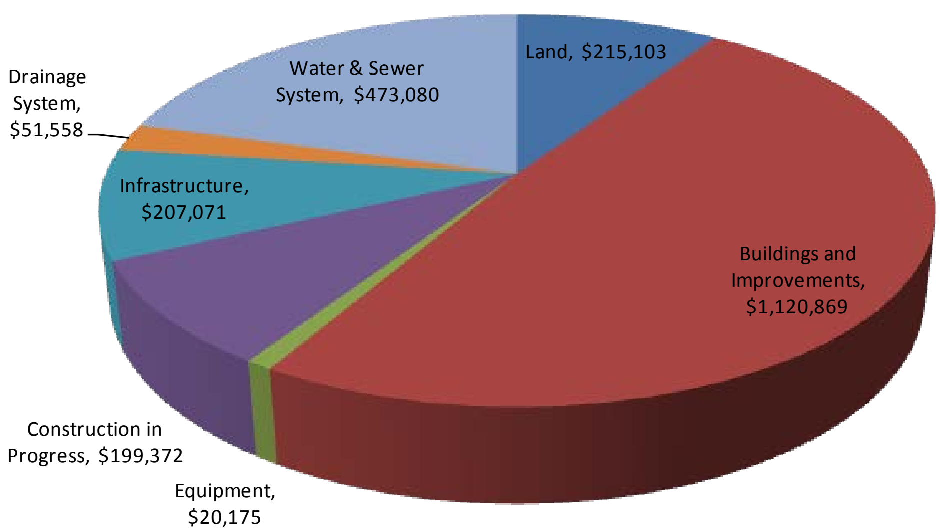
2011 Capital Assets

(in thousands)



2010 Capital Assets

(in thousands)

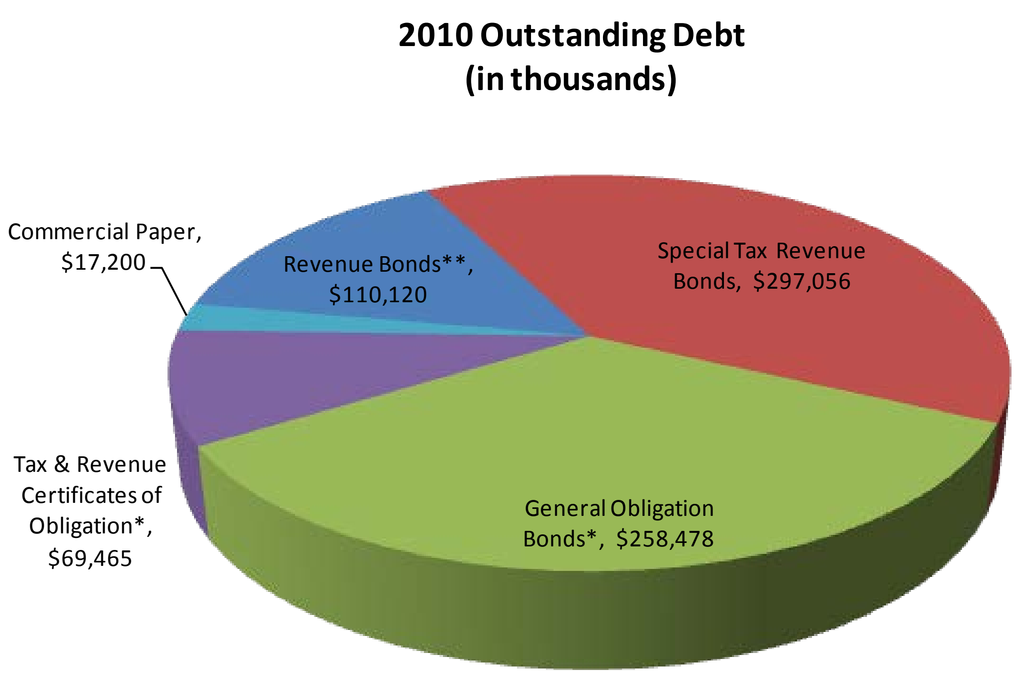


Major capital asset additions during the fiscal year include the following:

- Private developer capital contributions of $1.1M 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 $19M
- Storm drainage and street construction projects capital outlay totaling $17M
- Improvements to parks and recreation facilities of $4.5M
- Construction of the new fire stations #3 and #9 of $4.8M

Debt

At year-end, the City had $738M in debt, a decrease of $14.3M from 2010.



**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	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
General obligation bonds						
(backed by the City)	$ 254,340	$ 258,478	$ -	$ -	$ 254,340	$ 258,478
Combination tax and revenue						
certificates of obligation						
(backed by the City)	65,285	69,465	-	-	65,285	69,465
Commercial Paper	12,900	17,200	-	-	12,900	17,200
Special tax revenue bonds	262,212	297,056	-	-	262,212	297,056
Revenue bonds						
(backed by fee revenues)	-	-	143,256	110,120	143,256	110,120
Totals	$ 594,737	$ 642,199	$ 143,256	$ 110,120	$ 737,993	$ 752,319

During the current fiscal year, the City issued $54.57M in Permanent Improvement and Refunding bonds to refund certain debt obligations of the City, to make various capital improvements, to pay costs related to the issuance of the bonds, and to refund $4.3M of commercial paper notes. The City also issued $1.8M in Combination Tax and Revenue Certificates of Obligation. No new special obligation bonds were issued in 2011. In November 2010, the City issued $17.145 in Water and Sewer Revenue Bonds for the purpose of expanding the John F. Kubala Water Treatment Plant and construction of a water tower at Tierra Verde. In April 2011, the City issued $25.6M in Municipal Drainage Utility System Revenue Bonds to provide funds for drainage improvements. Footnote 8 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

In 2011, the City's tax supported debt rating was AA+ by Fitch, Inc. and was an Aa1 rating by Moody's Investor Services. The City maintained its AA+ rating by Standard and Poor's Corporation on its tax supported debt. The City also maintained ratings of water and wastewater revenue bonds, AA+ rating from Standard and Poor's Corporation, Aa2 rating from Moody's 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. The ratings for Municipal Drainage Utility System Revenue Bonds (Storm Water) are Aa2 by Moody's and AAA by Standard and Poor's Corporation.

General bonded debt per capita decreased from $933 in 2010 to $901 in 2011.

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 1.92%.

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 decreased to $9.5M in 2010 and then increased in 2011 to $11.5M.

COWBOYS COMPLEX DEVELOPMENT PROJECT

The Stadium Complex opened in July 2009, and the Dallas Cowboys began playing their home season games there. 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 Cowboys Complex Development Project. Pursuant to the agreement, the City paid $325M, to build the Complex. In July of 2005, the City issued $298M 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 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 $236M. The General Fund balance was $66.8M, an increase of $.2M from prior year. This slight increase can be attributed to a deliberate attempt by City management to balance current revenues against current expenditures. The Debt Service fund balance was $20.6M lower than prior year, primarily due to the early mandatory redemption of special tax revenue debt (Cowboys). The Debt Service Fund ended the year with a fund balance of $38.1M. Other changes in fund balances should be noted:

- The City decreased spending in the Street Capital Projects fund in 2011, down $3.8M from 2010. Fund balance increased with the debt issue in fiscal year 2011, which added $17M to the fund for street projects beginning in fiscal year 2012.

- The City's water and sewer fund net assets of $546.4M increased by $26.6M over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding expenses by $41.7M.

- 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 2011; storm water fee revenues exceeded fund expenses by $6.1M, increasing fund balance to $70.9M at the end of the fiscal year.

GENERAL FUND BUDGET HIGHLIGHTS

During fiscal year 2011, there were budgeted amendments in the General Fund to increase Community Services expenditures to hire one Code Compliance Officer I in Animal Services in the amount of $43,000. The increase was offset by salary savings and no changes to the overall General Fund appropriation were made.

Actual expenditures on a budgetary basis of $192.6M were less than budgeted expenditures of $198.1M. Spending that came in under estimates in General Government and Public Safety accounted for a majority of the savings.

Revenues on a budgetary basis exceeded expectations of $197.7M by a net $4.7M. Some revenues, including property tax collections, leases, rents and concessions, and licenses and permits, exceeded budgetary expectations by $1-4M each. Others, including service charges and utility franchise fees were $1-4M under expected levels.

ECONOMIC FACTORS AND FISCAL YEAR 2012

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for the business-type activities. While several key economic indicators seem indicate the City is still well entrenched in an economic downturn, revenues from sales tax are doing better than expected. Property taxes are estimated to be flat compared to 2011, and while sales tax receipts appear to be recovering, the City is experiencing stabilization of major revenue sources, but no significant increases. Home sales are sluggish and unemployment remains a serious issue. These trends, coupled with increased benefit costs, place pressure on the City to reduce expenses and maintain services. The City continues to focus on strategic, creative and innovative methods to minimize structural impacts while reducing costs.

The City's total General Fund revenues for 2012 are budgeted at $199.4M, up $1.8M from 2011, while total General Fund expenditures are expected to be $200.7M, up $5.7M from 2011.

The General Fund's largest single revenue source is property taxes. This revenue represents 37.1% of the General Fund budget. The property tax rate for 2012 is $0.6480 per $100 valuation, unchanged since 2004. The tax rate is broken into two pieces, operations and maintenance, $0.4393 per $100 valuation, to the General Fund, and interest and sinking, $0.2087 per $100 valuation, for debt service. The General Fund property tax revenue for 2012 is estimated to be $74M, up $1M (1.4%) 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 debt service for the Cowboy Project debt. Sales tax revenue for the General Fund for fiscal year 2012 is estimated at $47.5M, a 1.0% increase from 2011.

The largest revenue sources for the Water and Sewer Fund is water sales and wastewater treatment budgeted at $116.3M. 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 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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 258,614	$ 41,376	$ 299,990	$ 28,637
Investments	2,041	-	2,041	60,008
Receivables (net of allowance for uncollectibles):				
Taxes	5,031	-	5,031	-
Sales taxes	15,305	-	15,305	-
Trade accounts	124	10,194	10,318	-
Franchise fees	8,476	-	8,476	-
Unbilled trade accounts	-	9,132	9,132	-
Special assessments	179	-	179	-
Accrued interest	1,169	-	1,169	641
Ballpark lease	15,851	-	15,851	-
Settlement agreement	9,863	-	9,863	-
Other	3,643	15	3,658	696
Internal balances	1,349	(1,349)	-	-
Due from other governments	9,100	-	9,100	-
Deferred charge - issuance costs	6,411	-	6,411	-
Inventory of supplies	1,520	461	1,981	-
Prepaid expenses	81	-	81	23
Net other post employment benefit asset	316	-	316	-
Restricted assets-				
Bond contingency-				
Investments	-	12,178	12,178	-
Accrued interest receivable	-	20	20	-
Capital construction-				
Investments	-	59,850	59,850	-
Escrow	-	8,840	8,840	-
Meter deposits-				
Investments	-	4,904	4,904	-
Closure/Post-closure trust fund				
Investments	7,276	-	7,276	-
Capital Assets-				
Land	209,397	6,991	216,388	-
Buildings and improvements	1,258,998	2,833	1,261,831	563
Water and sewer system	-	704,836	704,836	-
Machinery and equipment	80,499	11,373	91,872	954
Infrastructure	776,945	-	776,945	-
Drainage systems	-	81,635	81,635	-
Construction in progress	117,637	83,812	201,449	-
Accumulated depreciation	(794,347)	(263,463)	(1,057,810)	(888)
Total Assets	$ 1,995,478	$ 773,638	$ 2,769,116	$ 90,634

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, 2011
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Accounts payable and accrued liabilities	$ 16,273	$ 3,956	$ 20,229	$ 1,092
Retainage payable	943	-	943	-
Accrued interest	3,301	-	3,301	-
Unearned revenue	6,839	-	6,839	2,736
Commercial paper	12,900	-	12,900	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,311	1,311	-
Retainage payable	-	910	910	-
Accrued interest	-	1,747	1,747	-
Meter deposits	-	4,904	4,904	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	6,269	-	6,269	-
Sales tax payable	223	-	223	-
General obligation and certificates of obligation debt	27,370	-	27,370	-
Special tax revenue debt	7,695	-	7,695	-
Accrued compensated absences	1,254	154	1,408	-
Capital lease obligation	67	-	67	-
Revenue bonds	-	11,308	11,308	-
Due in more than one year:				
Estimated claims payable	5,224	-	5,224	-
Sales tax payable	55	-	55	-
Net other post-employment benefit obligation	20,731	-	20,731	-
Net pension obligation	17,717	-	17,717	-
General obligation and certificates of obligation debt	292,256	-	292,256	-
Special tax revenue debt	254,516	-	254,516	-
Landfill closure accrued liabilities	7,276	-	7,276	-
Accrued compensated absences	24,391	1,439	25,830	-
Capital lease obligation	17	-	17	-
Revenue bonds	-	131,947	131,947	-
Total Liabilities	705,317	157,676	862,993	3,828
NET ASSETS				
Invested in capital assets, net of related debt	1,165,492	543,702	1,709,194	629
Restricted for debt service	36,501	19,706	56,207	-
Restricted for use of impact fees	6,497	-	6,497	-
Restricted for housing assistance	-	-	-	2,438
Restricted for endowments	-	-	-	78,806
Unrestricted	81,671	52,554	134,225	4,933
Total Net Assets	$ 1,290,161	$ 615,962	$ 1,906,123	$ 86,806

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	$ 74,285	$ 21,810	$ -	$ 1,264
Public safety	135,371	21,131	9,644	-
Public works	71,828	1,153	1,511	1,277
Public health	3,892	2,775	1,310	-
Parks and recreation	28,663	9,999	10	84
Public welfare	11,897	215	10,980	-
Convention and event services	6,194	2,975	-	-
Interest and fiscal charges	29,890	-	-	-
Total Governmental Activities	362,020	60,058	23,455	2,625
Business-Type Activities:				
Water and sewer	84,270	123,442	-	1,120
Storm water utility	4,861	10,492	-	-
Total Business-Type Activities	89,131	133,934	-	1,120
Total Primary Government	$ 451,151	$ 193,992	$ 23,455	$ 3,745
Component Units:				
Arlington Housing Authority	$ 28,733	$ -	$ 27,449	$ -
Arlington Convention and Visitors Bureau	4,155	4,201	-	-
Arlington Tomorrow Foundation	1,777	-	-	-
Arlington Housing Finance Corporation	43	-	59	-
Total Component Units	$ 34,708	$ 4,201	$ 27,508	$ -

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 decrease 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
$ (51,211)	$ -	$ (51,211)	$ -
(104,596)	-	(104,596)	-
(67,887)	-	(67,887)	-
193	-	193	-
(18,570)	-	(18,570)	-
(702)	-	(702)	-
(3,219)	-	(3,219)	-
(29,890)	-	(29,890)	-
(275,882)	-	(275,882)	-
-	40,292	40,292	-
-	5,631	5,631	-
-	45,923	45,923	-
$ (275,882)	$ 45,923	$ (229,959)	$ -
$ -	$ -	$ -	$ (1,284)
-	-	-	46
-	-	-	(1,777)
-	-	-	16
$ -	$ -	$ -	$ (2,999)
109,807	-	109,807	-
85,345	-	85,345	-
449	-	449	-
1,443	-	1,443	-
102	-	102	-
3,675	-	3,675	-
7,889	-	7,889	-
27,260	-	27,260	-
5,156	855	6,011	1,952
(1,255)	(105)	(1,360)	821
8,296	-	8,296	12,589
15,348	(15,348)	-	-
263,515	(14,598)	248,917	15,362
(12,367)	31,325	18,958	12,363
1,302,528	584,637	1,887,165	74,443
$ 1,290,161	$ 615,962	$ 1,906,123	$ 86,806

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Street Capital Projects	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 54,271	$ 33,301	$ 61,020	$ 86,342	$ 234,934
Closure/Post-closure restricted cash	7,276	-	-	-	7,276
Receivables (net of allowance for uncollectibles)					
Taxes	2,819	534	-	1,678	5,031
Sales taxes	8,730	4,383	-	2,192	15,305
Franchise fees	8,476	-	-	-	8,476
Special assessments	-	-	179	-	179
Accrued interest	794	367	-	-	1,161
Lease and settlement agreements	25,714	-	-	-	25,714
Other	2,891	-	-	752	3,643
Due from other funds	8,625	-	-	-	8,625
Due from other governments	-	-	-	9,100	9,100
Inventory of supplies, at cost	1,228	-	-	245	1,473
Total Assets	$ 120,824	$ 38,585	$ 61,199	$ 100,309	$ 320,917
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 10,292	$ 455	$ 1,094	$ 4,238	$ 16,079
Retainage payable	3	-	331	609	943
Due to other funds	-	-	-	8,625	8,625
Deferred revenue-					
Taxes	2,496	-	-	-	2,496
Closure/Post-closure trust fund	7,276	-	-	-	7,276
Landfill	6,173	-	-	-	6,173
Gas lease	-	-	-	292	292
Lease and settlement agreements	25,714	-	-	-	25,714
Other	2,095	-	179	1,830	4,104
Commercial paper	-	-	8,400	4,500	12,900
Total Liabilities	54,049	455	10,004	20,094	84,602
Fund Balances:					
Nonspendable:					
Inventory	1,228	-	-	245	1,473
Prepaids	16	-	-	-	16
Restricted for:					
Debt Service	-	38,130	-	-	38,130
Capital Projects	-	-	51,195	12,449	63,644
Other purposes	-	-	-	29,128	29,128
Committed to:					
Utility rate case	500	-	-	-	500
Capital Projects	1,122	-	-	21,934	23,056
Other purposes	-	-	-	17,152	17,152
Assigned to:					
Encumbrances	5,613	-	-	-	5,613
Working capital	16,054	-	-	-	16,054
Subsequent years' expenditures	5,944	-	-	-	5,944
Compensated absences	1,252	-	-	-	1,252
Other post employment benefits	1,718	-	-	-	1,718
Future initiatives	21,487	-	-	-	21,487
Dispatch	380	-	-	-	380
Information Technology	774	-	-	-	774
Business continuity	4,538	-	-	-	4,538
Other purposes	56	-	-	1,567	1,623
Unassigned	6,093	-	-	(2,260)	3,833
Total Fund Balances	66,775	38,130	51,195	80,215	236,315
Total Liabilities and Fund Balances	$ 120,824	$ 38,585	$ 61,199	$ 100,309	$ 320,917

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet			$ 236,315
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 $12,508 recorded in the internal service funds).			1,636,621
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Deferred & Unearned	Unearned	
Taxes	$ 2,496	$ -	
Closure/Post-closure	7,276	-	
Landfill	6,173	6,173	
Gas lease	292	292	
Grant revenue	1,295	374	
Ballpark lease	15,851	-	
Settlement	9,863	-	
Other	2,809	-	
	46,055	6,839	39,216
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.			27,752
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 $11,541 recorded in the internal service funds).			
Bonds payable		$ (580,370)	
Less: Deferred charge for issuance costs (to be amortized as interest expense)		6,411	
Premium general obligation debt		(11,385)	
Discount on bonds		3,412	
Deferred loss refunding		6,506	
Accrued interest payable		(3,301)	
Current year accrued interest payable		351	
Sales tax payable		(278)	
Landfill closure		(7,276)	
Compensated absences		(25,597)	
Net other post-employment benefit obligation		(20,731)	
Net other post-employment asset		316	
TMRS net pension obligation		(17,717)	
Capital leases		(84)	(649,743)
Net assets of governmental activities			$ 1,290,161

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 122,816	$ 64,019	$ -	$ 22,242	$ 209,077
Licenses and permits	7,146	-	-	-	7,146
Utility franchise fees	27,260	-	-	-	27,260
Fines and forfeitures	15,194	-	-	-	15,194
Leases, rents and concessions	6,791	2,000	-	-	8,791
Service charges	6,904	-	-	13,932	20,836
Interest revenue	2,209	1,530	522	743	5,004
Net decrease in fair value of investments	(200)	(683)	(138)	(180)	(1,201)
Contributions	944	-	1,215	84	2,243
Intergovernmental revenues	1	-	-	23,016	23,017
Gas lease royalty	-	-	-	7,863	7,863
Gas lease other	-	-	-	413	413
Other	205	286	345	5,990	6,826
Total Revenues	189,270	67,152	1,944	74,103	332,469
EXPENDITURES					
Current-					
General government	36,369	-	-	5,143	41,512
Public safety	117,785	-	-	10,734	128,519
Public works	19,947	-	-	24,056	44,003
Public health	1,693	-	-	2,044	3,737
Public welfare	-	-	-	11,045	11,045
Parks and recreation	13,711	-	-	10,264	23,975
Convention and event services	-	-	-	6,194	6,194
Capital outlay	-	-	11,223	15,166	26,389
Debt service-					
Principal retirement	-	61,785	-	-	61,785
Redemption premium	-	1,116	-	-	1,116
Interest and fiscal charges	-	28,703	-	-	28,703
Total Expenditures	189,505	91,604	11,223	84,646	376,978
Excess (deficiency) of revenues over (under) expenditures	(235)	(24,452)	(9,279)	(10,543)	(44,509)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond sale	-	5	12,730	770	13,505
Proceeds from refunding bond issue	-	36,765	4,300	-	41,065
Amount used for refunding bond refunding escrow	-	(39,252)	-	-	(39,252)
Bond premium	-	2,318	-	-	2,318
Proceeds from Certificates of Obligation	-	-	-	1,770	1,770
Transfers in	17,237	4,050	-	10,482	31,769
Transfers out	(16,794)	-	-	(7,026)	(23,820)
Total Other Financing Sources and Uses	443	3,886	17,030	5,996	27,355
Net Change in Fund Balances	208	(20,566)	7,751	(4,547)	(17,154)
Fund Balances, October 1,	66,567	58,696	43,444	84,762	253,469
Fund Balances, September 30	$ 66,775	$ 38,130	$ 51,195	$ 80,215	$ 236,315

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

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds		$ (17,154)
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.		27,665
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 expenditures in the governmental funds.		(59,209)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		317
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	(1,912)	
Repayment of general obligation debt	61,785	
Proceeds from issuance of bonds	(17,088)	
Repayment of capital lease	64	
Amortization of deferred loss on bond refunding	(878)	
Amortization of bond premium	1,148	
		43,119
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	560	
Arbitrage	75	
Accrued interest expense	(974)	
Post-employment benefit obligation expense	(3,675)	
Post-employment benefit asset	124	
TMRS net pension obligation	(3,451)	
Amortization of issuance cost	(333)	
Sales tax	224	
		(7,450)
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.		345
Change in net assets of governmental activities		$ (12,367)

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Storm Water Utility**	**Total**	**Governmental Activities- Internal Service Funds**
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 13,033	$ 28,342	$ 41,375	$ 23,680
Investments	-	-	-	2,041
Receivables (net of allowances for uncollectibles):				
Trade accounts	9,360	835	10,195	124
Unbilled trade accounts	8,622	510	9,132	-
Accrued interest	-	-	-	8
Other	15	-	15	81
Inventory of supplies, at cost	461	-	461	47
Subtotal	31,491	29,687	61,178	25,981
Restricted Assets:				
Bond contingency-cash and cash equivalents	5,706	-	5,706	-
Capital construction-cash and cash equivalents	15,238	-	15,238	-
Total Current Assets	52,435	29,687	82,122	25,981
Non-Current Assets:				
Restricted Assets:				
Bond contingency-				
Investments	6,472	-	6,472	-
Accrued interest	20	-	20	-
Capital construction-				
Investments	44,612	-	44,612	-
Escrow	8,840	-	8,840	-
Meter deposit investments	4,904	-	4,904	-
Capital Assets:				
Land	6,991	-	6,991	-
Buildings and improvements	2,833	-	2,833	467
Water and sewer system	704,836	-	704,836	-
Machinery and equipment	11,373	-	11,373	40,417
Drainage system	-	81,635	81,635	-
Construction-in-progress	66,242	17,570	83,812	-
Accumulated depreciation	(233,460)	(30,003)	(263,463)	(28,376)
Total Capital Assets Net of Accumulated Depreciation	558,815	69,202	628,017	12,508
Total Noncurrent Assets	623,663	69,202	692,865	12,508
Total Assets	$ 676,098	$ 98,889	$ 774,987	$ 38,489

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, 2011
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	Storm Water Utility	Total	Governmental Activities- Internal Service Funds
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 3,311	$ 645	$ 3,956	$ 545
Accrued compensated absences	147	7	154	-
Revenue bonds payable from unrestricted assets	6,815	1,280	8,095	-
Capital lease obligation	-	-	-	-
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued liabilities	1,311	-	1,311	-
Retainage payable	910	-	910	-
Accrued interest	1,312	435	1,747	-
Estimated claims payable	-	-	-	6,269
Revenue bonds payable	3,213	-	3,213	-
Meter deposits	4,904	-	4,904	-
Total Current Liabilities	21,923	2,367	24,290	6,814
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	5,224
Compensated absences	1,311	128	1,439	48
Revenue bonds payable from restricted assets	-	25,475	25,475	-
Revenue bonds payable from unrestricted assets	106,472	-	106,472	-
Total Noncurrent Liabilities	107,783	25,603	133,386	5,272
Total Liabilities	129,706	27,970	157,676	12,086
NET ASSETS				
Invested in capital assets, net of related debt	501,255	42,447	543,702	12,445
Restricted for debt service	19,706	-	19,706	-
Unrestricted	25,431	28,472	53,903	13,958
Total Net Assets	$ 546,392	$ 70,919	$ 617,311	$ 26,403
Reconciliation to government-wide statements of net assets:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(1,349)	
Net assets of business-type activities			$ 615,962	

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Storm Water Utility**	**Total**	**Governmental Activities- Internal Service Funds**
Operating Revenues:				
Water sales	$ 70,339	$ -	$ 70,339	$ -
Sewer service	48,076	-	48,076	-
Storm water fee - commercial	-	4,728	4,728	-
Storm water fee - residential	-	5,764	5,764	-
Service charges	-	-	-	23,804
Sundry	5,027	-	5,027	3
Total Operating Revenues	123,442	10,492	133,934	23,807
Operating Expenses:				
Purchase of water	16,531	-	16,531	-
Purchase of sewage treatment	23,987	-	23,987	-
Salaries and wages	11,202	1,314	12,516	423
Employees' retirement	1,837	229	2,066	77
Supplies	3,264	63	3,327	3,752
Maintenance and repairs	3,487	279	3,766	250
Utilities	3,088	8	3,096	56
Claims (net of adjustments)	-	-	-	20,562
Legal and professional	-	-	-	578
Depreciation	13,825	1,716	15,541	3,663
Miscellaneous services	4,528	762	5,290	2,408
Total Operating Expenses	81,749	4,371	86,120	31,769
Operating Income (Loss)	41,693	6,121	47,814	(7,962)
Nonoperating Revenues (Expenses):				
Interest revenue	682	173	855	179
Net increase (decrease) in the fair value of investments	(117)	12	(105)	(54)
Gain on sale of assets	-	-	-	358
Interest expense and fiscal charges	(2,088)	(490)	(2,578)	(8)
Total Nonoperating Revenues (Expenses)	(1,523)	(305)	(1,828)	475
Income (loss) before transfers and contributions	40,170	5,816	45,986	(7,487)
Contributions in aid of construction	1,120	-	1,120	-
Transfers in	-	-	-	9,770
Transfers out	(14,696)	(652)	(15,348)	(2,371)
Change in Net Assets	26,594	5,164	31,758	(88)
Total Net Assets, October 1	519,798	65,755	585,553	26,491
Total Net Assets, September 30	$ 546,392	$ 70,919	$ 617,311	$ 26,403

Net change in net assets - total proprietary funds	$ 31,758
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(433)
Change in net assets of business-type activities	$ 31,325

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds			
	Water and Sewer	Storm Water Utility	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 121,177	$ 10,348	$ 131,525	$ 23,896
Cash payments to suppliers	(53,799)	(505)	(54,304)	(25,508)
Cash payments to employees	(13,262)	(1,560)	(14,822)	(567)
Net Cash Provided By (Used For) Operating Activities	54,116	8,283	62,399	(2,179)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	9,770
Transfers out	(14,696)	(652)	(15,348)	(2,290)
Net Cash Provided By (Used For) Noncapital Financing Activities	(14,696)	(652)	(15,348)	7,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(18,134)	(17,044)	(35,178)	(5,031)
Principal payments on capital lease	-	-	-	(191)
Interest payments on capital lease	-	-	-	(8)
Proceeds from sales of capital assets	-	-	-	377
Proceeds from issuance of long-term debt	5,045	26,865	31,910	-
Repayment of long-term debt	(7,504)	-	(7,504)	-
Interest payment long-term debt	(4,393)	-	(4,393)	-
Net Cash Provided By (Used For) Capital And Related Financing Activities	(24,986)	9,821	(15,165)	(4,853)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	820	173	993	184
Net increase (decrease) in the fair value of investments	(117)	12	(105)	(54)
Purchase of investments	(97,766)	-	(97,766)	-
Maturities/sales of investments	78,591	-	78,591	2,024
Net Cash Provided By (Used For) Investing Activities	(18,472)	185	(18,287)	2,154
Net Increase (Decrease) In Cash And Cash Equivalents	(4,038)	17,637	13,599	2,602
Cash And Cash Equivalents, October 1	38,014	10,705	48,719	21,077
Cash And Cash Equivalents, September 30	$ 33,976	$ 28,342	$ 62,318	$ 23,679
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 41,693	$ 6,121	$ 47,814	$ (7,962)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	13,825	1,716	15,541	3,663
Interest earnings capitalized	(129)	-	(129)	-
Interest expense capitalized	2,216	-	2,216	-
Amortization of bond premium	238	110	348	-
Amortization of deferred loss on bond refunding	(164)	-	(164)	-
Provision for bad debts	(141)	(6)	(147)	-
(Increase) decrease in-				
Receivables	(1,982)	(144)	(2,126)	89
Inventory of supplies	(41)	-	(41)	24
Prepaid expenses	-	-	-	(81)
Increase (decrease) in-				
Accounts payable and accrued liabilities	143	529	672	155
Estimated claims payable	-	-	-	2,008
Retainage payable	(1,307)	(10)	(1,317)	-
Meter deposits	50	-	50	-
Accrued compensated absences	(285)	(33)	(318)	(75)
Total adjustments	12,423	2,162	14,585	5,783
Net Cash Provided By (Used For) Operating Activities	$ 54,116	$ 8,283	$ 62,399	$ (2,179)
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	1,120	-	1,120	-

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 6,877
Investments		
Money market fund	31,021	-
Corporate bonds	1,678	-
Fixed income mutual bond funds	11,861	-
Common stock mutual bond funds	46,316	131
Balanced mutual funds	13,671	-
Participant borrowing	4,853	-
Self directed brokerage accounts	2,496	-
Total Investments	111,896	131
Total Assets	$ 111,896	$ 7,008
LIABILITIES		
Accounts payable and accrued liabilities	$ -	$ 6,877
IRC 401 deferred compensation plans	-	131
Total Liabilities	$ -	$ 7,008
NET ASSETS		
Held in trust for pension benefits	$ 111,896	

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, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,883
Employee contributions	5,815
Net appreciation in fair value of investments	2,674
Total Additions	11,372
DEDUCTIONS	
Benefits	9,579
Plan administration	88
Total Deductions	9,667
Increase in Net Assets	1,705
Net Assets, October 1	110,191
Net Assets, September 30	$ 111,896

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

ARLINGTON

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 financial 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 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 and Street Capital Projects Fund. The enterprise funds are made up of the Water and Storm Water Utility 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. 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.

d. Other Governmental Funds is a summarization of all of the nonmajor governmental funds, including capital project and special revenue funds.

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 solid waste franchise fees and landfill royalties 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; 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 Trust Funds and the AHA, 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 completed. 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 2011, 2,086,517 of interest cost, net of $129,049 interest earned, was 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 2011 for the Water and Sewer Fund amounted to approximately $2,087,500 and $681,900, respectively.

I. Arbitrage Liability

The City accrues a liability for an amount of arbitrage rebate 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. Nature and Purpose of Classifications of Fund Equity

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by the intent to be used for specific purposes, neither restricted nor committed. Assignments are made by City management based on Council direction.

M. Minimum Fund Balance Policy

It is the desire of the City to maintain adequate General Fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial standard to maintain a General Fund working capital reserve at a minimum level of 8.33% ($1/12^{th}$) of annual General Fund expenditures. Total General Fund balances shall be maintained at a minimum of 15% of annual General Fund expenditures.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City of through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. New Accounting Pronouncements

During fiscal year 2011, the City adopted the following Governmental Accounting Standards Board ("GASB") Statements:

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition.* 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. Current financial statements reflect the new classifications.

Statement No. 59, *Financial Instruments Omnibus.* This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This pronouncement had no significant impact on current financial statements.

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

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. 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.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which is effective for the City beginning in fiscal year 2013. This Statement standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which is effective for the City beginning in fiscal year 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

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 2011, there were budget amendments in the General Fund to increase Community Services expenditures to hire one Code Compliance Officer I in Animal Services in the amount of $43,000. That increase in expenditures will be offset by reduced General Fund salaries for turnover savings by the same amount. There was also an increase in the authorized appropriation in the Fire Non-Arbitrage Fund by $1,122,000 by appropriating $700,000 of undesignated, unreserved fund balance and an additional $422,000 appropriated from General Fund reserves designated for dispatch services. These appropriations will provide funding for the Fire Department to begin the multi-year process of acquiring a new computer-assisted dispatch (CAD) system. There was an increase in the Street Maintenance Fund appropriations by $2,000,000 which was in the fund's fiscal year-end 2010 balance, to cover increased funding for street repairs and maintenance. Additionally, in the Water Utilities Fund, expenses related to purchases of supplemental water and sewage treatment from the Trinity River Authority and Tarrant Regional Water District, decreased the fund's expenses by $404,621. There was also a decrease in revenue projections by $462,000 related to revised activation and convenience fees, and lower estimates for various other revenues, which will decrease available funding by that amount in the Water Utilities Fund.

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, 2011, there were no expenses exceeding budget in the aggregate.

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: ($2,256,000)
Disaster Assistance: ($4,000)

These fund balances will be replenished in 2012 from reimbursements funded by Federal and State Grants.

Additionally, the Police Capital Projects fund has a deficit balance of $104,000. 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, 2011, the carrying amount of the City's demand deposits was $30,666,000 (bank balance, $36,327,000). The $30,666,000 balance consisted of a $30,281,000 balance in City Funds and a $385,000 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 $7,276,000. 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, 2011, the City had the following cash, cash equivalents and investments (amounts in thousands):

City Funds	Fair Value	Weighted average Maturity (in days)
Demand Deposits	$30,281	n/a
Cash on Hand	70	n/a
Other Cash in Bank	(62)	n/a
General Operating/Internal Pool	315,896	697
Debt Service and Working Capital Reserve	3,570	510
Dallas Cowboy Complex Development Project		
Debt Service Reserve	27,167	1,284
Closure/Post-closure trust fund	7,276	1
Self-Insurance	2,041	471
Total City	**$386,239**	

Fiduciary Funds	Fair Value	Weighted average Maturity (in days)
Agency Funds-Internal Pool	$6,901	697
Agency Funds- Cash in Bank	(24)	n/a
Agency Funds- Mutual Funds	131	n/a
Pension Trust Funds – Money Market Fund	31,021	n/a
Pension Trust Funds – Corporate Bonds	1,678	n/a
Pension Trust Funds- Mutual Funds	79,197	n/a
Total Fiduciary Funds	**$118,904**	

Component Units	Fair Value	Weighted average Maturity (in days)
Demand Deposits	$385	n/a
Cash in Bank	4,674	n/a
ATF – Internal Pool	23,578	1,795
ATF – Investments	57,159	697
AHA – Bank Cert. of Deposit	2,849	275
Total Component Units	**$88,645**	
Total Entity – Cash, Cash Equivalents and Investments	**$593,788**	

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 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, 2011 the City's overall portfolio consisted of:

City Funds	Fair Value
Demand Deposits	**$30,281**
Cash on Hand	**70**
Cash in Bank	**(62)**
Federal Home Loan Bank Bonds	**102,462**
Federal Home Loan Mortgage Corp. Bonds	**64,622**
Federal National Mortgage Association Bonds	**71,999**
Federal Farm Credit Bonds	**72,458**
Farmer Mac	**3,729**
Wells Fargo Money Market	**13,019**
TexPool	**2,995**
TexasDaily	**18,269**
TexStar	**1,828**
World Bank	**4,569**
Total City	**$386,239**

Component Units	Fair Value
Demand Deposits	**$385**
Cash in Bank	**4,674**
ATF - Federal Home Loan Bank	**35,676**
ATF - Federal Home Loan Mortgage Corp.	**4,698**
ATF - Federal National Mortgage Association	**5,280**
ATF - Farmer Mac	**6,113**
ATF - Federal Farm Credit	**26,941**
ATF - TexPool	**220**
ATF - TexasDaily	**1,340**
ATF - TexStar	**134**
AHA – Bank Cert. of Deposit	**2,849**
World Bank	**335**
Total Component Units	**$88,645**
Total Entity – Cash, Cash Equivalents and Investments	**$593,788**

Fiduciary Funds	Fair Value
Agency Funds - Cash in Bank	**$(24)**
Agency Funds - Mutual Funds	**131**
Agency Funds - Federal Home Loan Bank	**1,946**
Agency Funds - Federal Home Loan Mortgage Corp.	**1,375**
Agency Funds - Federal National Mortgage Association	**1,545**
Agency Funds – Federal Farm Credit	**1,362**
Agency Funds – Farmer Mac	**80**
Agency Funds - TexPool	**64**
Agency Funds - TexasDaily	**392**
Agency Funds - TexStar	**39**
Pension Trust Funds - Money Market Fund	**31,021**
Pension Trust Funds - Corporate Bonds	**1,678**
Pension Trust Funds - Mutual Funds	**79,197**
World Bank	**98**
Total Fiduciary Funds	**$118,904**

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.

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, 2011, the City's investment in TexPool was $3,279,000 with a market value of $3,279,000. The City's investment in TexasDaily was $20,001,000 with a market value of $20,001,000 and the City's investment in TexStar was $2,001,000 with a market value of $2,001,000.

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, 2010, upon which the original FY11 levy was based, was $17,179,112,309.

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, 2011, the City had a tax rate of $0.6480 ($0.4393 for general government and $0.2087 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 $318,157,160 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $17,179,112,309.

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. COWBOYS COMPLEX DEVELOPMENT PROJECT

In 2004, the voters authorized the City to provide the planning, acquisition, construction and financing for the 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 $1,109,951,954 with an accumulated depreciation of $56,225,237.

City Debt – In 2005, the City issued $297,990,000 Cowboy Complex Special to fund the City's share of the project costs for the Complex, including $164,265,000 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 Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 (the "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 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, 2011, outstanding conduit debt was $142,925,000.

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, 2011 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	$ 8,745	$ 534	$ -	$ -	$ -	$ 1,678	$ -	$ 10,957
Franchise Fees	8,476	-	-	-	-	-	-	8,476
Trade Accounts	-	-	890	11,832	-	-	124	12,846
Unbilled Trade Accounts	-	-	510	8,981	-	-	-	9,491
Special Assessments	-	-	-	-	179	-	-	179
Sales Taxes	8,730	4,383	-	-	-	2,192	-	15,305
Lease and settlement agreements	25,714	-	-	-	-	-	-	25,714
Accrued Interest	794	367	-	-	-	-	8	1,169
Other	2,891	-	-	15	-	752	81	3,739
Gross Receivables	55,350	5,284	1,400	20,828	179	4,622	213	87,876
Less: Allowance for Uncollectibles	(5,926)	-	(56)	(2,831)	-	-	-	(8,813)
Net total Receivables	$ 49,424	$ 5,284	$ 1,344	$ 17,997	$ 179	$ 4,622	$ 213	$ 79,063

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 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	$ 208,407	$ 990	$ -	$ 209,397
Construction in progress-other	125,869	28,766	(36,998)	117,637
Total capital assets, not being depreciated	334,276	29,756	(36,998)	327,034
Capital assets, being depreciated:				
Buildings and improvements	1,244,562	14,585	(149)	1,258,998
Equipment	77,541	7,312	(4,354)	80,499
Infrastructure	758,931	18,014	-	776,945
Total capital assets, being depreciated	2,081,034	39,911	(4,503)	2,116,442
Less accumulated depreciation for:				
Buildings and improvements	123,535	30,527	(41)	154,021
Equipment	58,402	9,277	(4,333)	63,346
Infrastructure	553,667	23,313	-	576,980
Total accumulated depreciation	735,604	63,117	(4,374)	794,347
Total capital assets, being depreciated, net	1,345,430	(23,206)	(129)	1,322,095
Governmental activities capital assets, net	$ 1,679,706	$ 6,550	$ (37,127)	$ 1,649,129

	Balance at Beginning Of Year	Additions	Retirements	Balance at End Of Year
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 6,696	$ 295	$ -	$ 6,991
Construction in progress	73,503	34,907	(24,598)	83,812
Total capital assets, not being depreciated	80,199	35,202	(24,598)	90,803
Capital assets, being depreciated:				
Buildings and improvements	2,833	-	-	2,833
Drainage System	79,845	1,790	-	81,635
Water and sewer system	681,348	23,488	-	704,836
Machinery and equipment	11,219	154	-	11,373
Total capital assets, being depreciated	775,245	25,432	-	800,677
Less accumulated depreciation for:				
Buildings and improvements	1,184	56	-	1,240
Drainage System	28,287	1,716	-	30,003
Water and sewer system	208,268	13,590	-	221,858
Machinery and equipment	10,183	179	-	10,362
Total accumulated depreciation	247,922	15,541	-	263,463
Total capital assets, being depreciated, net	527,323	9,891	-	537,214
Business-type activities capital assets, net	$ 607,522	$ 45,093	$ (24,598)	$ 628,017

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

Governmental activities:	
General Government	$ 27,154
Public Safety	3,547
Parks and recreation	4,387
Public works	24,366
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,663
Total depreciation expense – governmental activities	$63,117
Business-type activities:	
Storm Water Utility	1,716
Water and sewer	$ 13,825
Total depreciation expense – business-type activities	$ 15,541

Discretely presented component units:

(amounts expressed in thousands)

	Balance at Beginning of Year	Transfer 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	354	59	(44)	369
Totla capital assets, being depreciated	917	59	(44)	932
Less accumulated depreciation for:				
Machinery and equipment	(408)	(75)	44	(439)
Total accumulated depreciation	(408)	(75)	44	(439)
Arlington Housing Authority, Inc. Capital assets, net	$ 509	$ (16)	$ -	$ 493

	Balance at Beginning of Year	Transfer and Additions	Transfers and Retirements	Balance at End of Year
Arlington Convention and Visitors Bureau, Inc.				
Capital asset, being depreciated:				
Machinery and equipment	$ 659	$ 40	$ (114)	$ 585
Total capital assets, being depreciated	659	40	(114)	585
Less accumulated depreciation for:				
Machinery and equipment	(518)	(46)	114	(450)
Total accumulated depreciation	(518)	(46)	114	(450)
Arlington Convention and Visitors Bureau, Inc. Capital assets, net	$ 141	$ (6)	$ -	$ 135

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 842 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, 2010 valuations are contained in the 2010 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. In 2011, that amount was equal to 50% 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 contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. The rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. 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 16.76% of covered payroll for the months in calendar year 2010, and 17.16% for the months in calendar year 2011. 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, 2009 valuation is effective of rates beginning January 1, 2011). 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 $28,051,791 was $3,451,009 higher than the City's contributions.

Annual required contribution (ARC)	$ 27,938,432
Interest	998,631
Adjustment to the ARC	(885,272)
Annual pension cost (expense)	28,051,791
Contribution made	24,600,782
Increase (decrease) in net pension obligation	3,451,009
Net pension obligation beginning of year	14,266,151
Net pension obligation end of year	$ 17,717,160

Three-Year Trend Information

Fiscal Year	Annual Pension Cost	Percentage of APC Contribution	Net Pension Oblibation (Asset)
2011	$28,051,791	87.70%	$17,717,160
2010	$30,917,593	77.43%	$14,266,151
2009	$29,582,321	75.36%	$7,287,773

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 ratios; however, the funded ratio 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:

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

As of December 31, 2010, the most recent actuarial valuation date, the plan was 82.7 percent funded. The actuarial accrued liability for benefits was $832,168,294, and the actuarial value of assets was $688,014,565, resulting in an unfunded actuarial accrued liability (UAAL) of $144,153,729. The covered payroll (annual payroll of active employees covered by the plan) was $142,874,528, and the ratio of the UAAL to the covered payroll was 100.9%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial valuation date	12/31/2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	27.1 years (closed)
Asset valuation method	Amortized cost
Investment rate of return	7.0 percent
Projected salry increases	Varies by age and service
Payroll growth	3 percent
Withdrawal rate (low, mid or high) for male/female)	Mid-High/Mid-High
Inflation rate	3 percent
Cost-of-Living-Adjustments	1.5 percent

Thrift Savings Plan

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, 2011, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $108,685,000.

The City's total payroll during fiscal 2011 was $149,093,000. The current year contribution was calculated based on a covered payroll of $89,765,000, resulting in a required and actual employer contribution of $2,425,000 and actual employee contributions of $5,746,000. The employer contribution represents 2.70 percent of the covered payroll. The employee contribution represents approximately 6.40 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2011. There were no related-party transactions. The Thrift Plan does not issue separate stand-alone financial statements.

Part-Time Deferred Income Trust

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, 2011, the most recent actuarial valuation date, the plan was 136.9 percent funded. The actuarial accrued liability for benefits was $1,627,923, and the actuarial value of assets was $2,230,389, resulting in an excess funded actuarial accrued liability (EAAL) of $602,466. The covered payroll (annual payroll of active employees covered by the plan) was $2,693,403, and the ratio of the EAAL to the covered payroll was 22.4%.

The contribution rate for employees is 3 percent, and the City’s actuarially determined matching percent is 1.7 percent for fiscal year 2011. For fiscal year 2012, the contribution rate required is zero, however a rate of .5 percent was chosen to provide a cushion for future adverse experience (particularly investment experience which can be volatile). The City's required contribution rate was determined as part of the July 1, 2011, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. Under this method the City's contribution rate is equal to the level percentage of future pay that is equivalent to the present value of future benefits less the plan assets.

The actuarial assumptions used in the July 1, 2011 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. Because the assets of the plan exceed the actuarial liability, amortization of the unfunded liability is discontinued and the contribution required for the plan was developed under the aggregate cost method. This method does not identify or separately amortize unfunded actuarial accrued liabilities; the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

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

Fiscal Year Ending	**Annual Pension Cost (APP)**	**Percentage of ARC Contributed**	**Net Pension Obligation**
9/30/11	$75,000	100.00%	-
9/30/10	$81,000	100.00%	-
9/30/08	$102,000	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.

City contributions for the above plans for the year ended September 30, 2011, are as follows (amounts in thousands):

TMRS	$24,601
THRIFT	2,425
PTDIT	75
	$27,101

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.

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, 2011 (amounts in thousands):

	Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ASSETS			
Investments	$ 2,191	$ 108,685	$ 110,876
Total Assets	2,191	108,685	110,876
NET ASSETS, Held in Trust for Pension Benefits	$ 2,191	$ 108,685	$ 110,876

	Changes in Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ADDITIONS			
Employer contributions	$ 75	$ 2,425	$ 2,500
Employee contributions	69	5,746	5,815
Net appreciation in fair value of investments	62	2,589	2,651
Total Additions	206	10,760	10,966
DEDUCTIONS			
Benefits	(101)	(9,252)	(9,353)
Plan administration	(24)	(43)	(67)
Total Deductions	(125)	(9,295)	(9,420)
Increase in Net Assets	81	1,465	1,546
NET ASSETS, October 1	2,110	107,220	109,330
NET ASSETS, September 30	$ 2,191	$ 108,685	$ 110,876

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, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	33
Active plan members	2,298
Total	2,331

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, 2011, the City contributed $383,000 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, 2011, the most recent actuarial valuation date, the plan was 37.9 percent funded. The actuarial accrued liability for benefits was $2,662,505, and the actuarial value of assets was $1,008,170, resulting in an unfunded actuarial accrued liability (UAAL) of $1,654,335. The covered payroll (annual payroll of active employees covered by the plan) was $125,371,177, and the ratio of the UAAL to the covered payroll was 1.3%.

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	07/01/2011
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 (includes inflation assumption of 4.5%)	6.5 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	$ 276
Interest on net OPEB asset	(13)
Adjustment to annual required contribution	(14)
Annual OPEB cost (expense)	249
Contributions made	(373)
Increase in net OPEB asset	(124)
Net OPEB asset - beginning of year	(192)
Net OPEB asset - end of year	$ (316)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2011 and the three preceding years are as follows:

Ending	Cost	Contribution	(Asset)
9/30/11	$249,000	149.80%	($316,000)
9/30/10	$305,000	127.21%	($192,000)
9/30/09	$358,000	142.25%	($109,000)
9/30/08	$364,000	100.00%	-

DIP does not issue separate GAAP financial reports. Its financial statements are presented below as of September 30, 2011 (in thousands):

Net Assets	
Assets	
Investments	$ 1,020
Total assets	1,020
Net assets, held in trust for	
Other postemployment benefits	$ 1,020

Changes in Net Assets	
Additions	
Employer contributions	$ 383
Net appreciation in fair value	
Of investments	23
Total additions	$ 406
Deductions	
Benefits	(226)
Plan Administration	(21)
Total deductions	(247)
Increase in net assets	159
Net assets, October 1, 2010	861
Net assets, September 30, 2011	$ 1,020

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, 2011, 637 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	$ 8,658
Interest on net OPEB Obligation	768
Adjustment to annual required contribution	(1,047)
Annual OPEB cost (expense)	8,379
Contributions made	(4,704)
Increase in net OPEB obligation	3,675
Net OPEB obligation – beginning of year	17,056
Net OPEB obligation – end of year	$ 20,731

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the three preceding years are as follows (dollar amounts in thousands):

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Contribution	Net OPEB Obligation
9/30/11	$ 8,379	56.14%	$ 20,731
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, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $109.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $109.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $95.6 million, and the ratio of the UAAL to the covered payroll was 87.6 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.

Valuation date	01/01/2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Remaining amortization period	30 years
Healthcare Cost trend rate - medical	9% initial (2011) 5% ultimate (2015)
Healthcare Cost trend rate - prescription	11% initial (2011) 5% ultimate (2015)
Inflation rate	4.5 percent

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 .14 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, 2011, 2010, and 2009, were $201,409, $257,104, and $258,737 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 2011 commercial paper of $4,300,000 was paid off from permanent improvement bond refunding.

General short-term debt balances and transactions for the year ended September 30, 2011 are as follows (amounts in thousands):

	Balance October 1, 2010	Additions	Retirements and Other	Balance September 30, 2011
Commercial Paper	$ 17,200	$ -	$ (4,300)	$ 12,900

General Obligation Bonds

On November 1, 2010, the City issued Permanent Improvement Refunding Bonds, Series 2010A of $21.58 million with an interest rate of 2.0 to 4.0 percent and serial maturities on August 15 from 2011 through 2023. Interest on the bonds is 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 refunding resulted in a deferred loss of $2,065,910. The Series A bonds mature on August 15 over a period from 2012 to 2023. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirements for the Series A bonds at a rate from 2.00 to 4.00 percent is $5,727,450 in the aggregate. 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

In June, 2011, the City issued $17,805,000 in Permanent Improvement and Refunding Bonds, Series A and $15,185,000 in Permanent Improvement and Refunding Bonds, Series 2011B, 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 Series A bonds mature on August 15 over a period from 2012 to 2031. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirements for the Series A bonds at a rate from 2.00 to 4.125 percent is $6,867,394 in the aggregate. The Series B bonds mature on August 15 over a period from 2012 to 2021. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirement for the Series B bonds at a rate from 2.00 to 2.87 percent is $1,311,068 in the aggregate. The City is amortizing a deferred losses on the 2011B bonds of $513,258. The refunding was undertaken to achieve a present value savings on debt service payments of $926,536. Following is the schedule of refunded obligations (amounts in thousands):

Bonds	**Original Dated Date**	**Original Maturity Date**	**Interest Rates**	**Amount Refunded**
Commercial Paper Notes	2/8/2010	7/8/2011	0.28%	$ 4,300
Permanent Improvement Refunding Bonds, Series 2001-A	6/1/2001	8/15/2012	5.50%	3,010
		8/15/2013	5.50%	1,670
		8/15/2014	5.50%	1,665
		8/15/2015	4.75%	855
		8/15/2016	5.00%	795
				7,995
Permanent Improvement Bonds, Series 2001-B	6/1/2001	8/15/2012	4.65%	735
		8/15/2013	4.80%	735
		8/15/2014	4.90%	735
		8/15/2015	5.00%	735
		8/15/2016	5.05%	735
		8/15/2017	5.125%	735
		8/15/2021	5.30%	2,940
				7,350
		Total Refunded Obligations		$19,645

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

Purpose	Interest Rates	Amount
Governmental activities	2.5-5.500%	$ 93,375
Governmental activities - refunding	2.0-5.500%	158,075
Total Governmental		$ 251,450

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

Year Ending September 30	Governmental Activities, General Obligation Principal	Interest
2012	$ 23,140	$ 10,401
2013	21,820	9,529
2014	22,645	8,646
2015	22,670	7,719
2016	21,310	6,750
2017-2021	79,525	21,522
2022-2026	41,095	8,744
2027-2031	19,245	1,708
	$ 251,450	$ 75,019

General obligation debt authorized and unissued as of September 30, 2011, amounted to $114,690,000.

Certificates of Obligation

Concurrent with the 2011 Public Improvement and Refunding Bonds, the City issued $1,770,000 in Combination Tax and Revenue Certificates of Obligations, Series 2011 in June. The proceeds from the sale of these certificates are being used to fund municipal airport facilities and taxiways as well as the cost of the issuance. The certificates mature August 15 over the period 2012 to 2031. Interest on the certificates is payable February 15 and August 15, commencing August 15, 2011. Interest on the certificates at a rate of 2.00 to 4.25 percent is $686,347 in the 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 Principal	Interest
2012	$ 4,230	$ 2,634
2013	4,870	2,490
2014	4,810	2,344
2015	4,535	2,198
2016	4,295	2,062
2017-2021	12,630	8,574
2022-2026	13,505	5,735
2027-2031	11,590	2,687
2032-2033	4,820	337
	$ 65,285	$ 29,061

Special Obligation Bonds

In 2005, the City issued $297,990,000 Cowboys Complex Special Obligations to fund the City's share of the project costs for the Complex, including $164,265,000 Cowboys complex Special Obligation Tax-Exempt Special Tax bonds, Series 2005B (the "Multi-Modal Bonds"). In 2008-2009, the City issued $112,185,000, Series 2008, and $62,820,000, Series 2009, in Special Tax Revenue Bonds, refunding a total of $164,265,000of the 2005B issue principal.

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

Year Ending September 30	Governmental Activities, Special Revenue Principal		Interest	
2012	$	7,695	$	13,339
2013		8,000		13,017
2014		7,710		12,652
2015		8,070		12,289
2016		8,530		11,904
2017-2021		65,375		51,913
2022-2026		90,160		32,363
2027-2031		46,345		11,325
2032-2034		21,750		1,394
	$	263,635	$	160,196

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 Cowboys Stadium Bonds. Annual principal and interest payments are expected to require 100 percent of these revenues. Series 2005A are subject to mandatory sinking fund redemption to the extent that there are moneys on deposit available for such purpose. In 2011, the City redeemed $17,225,000 of the 2005A Term Bonds maturing August 15, 2034, and $10,275,000 of bonds maturing August 15, 2033. The total principal and interest remaining to be paid on the Cowboys Stadium Bonds is $423,830,000. Principal and interest payments and total pledged revenues for the year ended September 30, 2011 were $22,405,000 and $23,568,000, respectively, exclusive of the redemption.

Revenue Bonds

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

In fiscal year 2011, the City issued Water and Sewer Revenue Bonds in the amounts of $13,885,000 in 2010 bonds and $3,260,000 related to the 2008 debt issue held by the Texas Water Development Board (TWDB) as part of the TWDB Clean and Drinking Water Programs. This brings the total outstanding TWDB balance to $40,650,000. These bonds will mature June 2012 to June 2024 at interest rates to 1.7 percent.

In April, 2011, the City issued $25,600,000 in Municipal Drainage Utility System Revenue Bonds, Series 2011. Proceeds from the sale of these bonds will be used to provide funds for drainage improvements including the acquisition and construction of facilities for the System and to pay cost of issuance associated with the Bonds. These bonds mature June 1 over a period from 2012 to 2031. Interest, at a rate of 3.00 to 4.5 percent, is $11,534,489 in the aggregate.

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

	Business Activities					
Year Ending	Water/Wastewater		Water/Wastewater TWDB		Storm Water Utility	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2012	7,740	3,137	2,595	768	1,280	1,173
2013	7,255	2,840	2,595	741	1,280	1,002
2014	6,775	2,554	2,595	710	1,280	963
2015	6,720	2,278	2,595	675	1,280	925
2016	6,170	2,007	2,595	638	1,280	874
2017-2021	25,510	6,508	12,975	2,517	6,400	3,574
2022-2026	12,700	2,111	11,930	1,073	6,400	2,192
2027-2031	3,155	256	2,770	114	6,400	832
	76,025	21,691	40,650	7,236	25,600	11,535

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, 2011, net pledged revenues for the water enterprise fund were $56,201,000 and debt service on the revenue bonds was $14,804,071. The same pledge for repayment applies to the City's Storm Water Utility revenue of $8,009,936 for the bonds issued in fiscal year 2011.

Sales Tax Liability

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, 2011, this liability is reported at $278,522 in the governmental activities.

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2011 (amounts expressed in thousands):

	10/1/2010	Increases	Reductions	9/30/2011	Due Within One Year
Governmental activities:					
General obligation debt	$254,425	$54,570	($57,545)	$251,450	$23,140
Special tax revenue debt	298,550	-	(34,915)	263,635	7,695
Certificates of obligation	69,465	1,770	(5,950)	65,285	4,230
Premium on general bonds	5,697	2,318	(1,642)	6,373	-
Premium on special bonds	5,365	-	(353)	5,012	-
Deferred loss on refunding	(1,644)	(2,579)	740	(3,483)	-
Deferred loss on special bond refund	(3,160)	-	137	(3,023)	-
Discount on special bonds	(3,699)	-	287	(3,412)	-
Net governmental bonds payable	624,999	56,079	(99,241)	581,837	35,065
Compensated absences	26,453	514	(1,322)	25,645	1,254
Capital leases	339	-	(255)	84	67
Arbitrage liability	75	-	(75)	-	-
Claims	9,485	7,224	(5,216)	11,493	6,269
Landfill closure	6,738	538	-	7,276	-
Sales tax	502	-	(224)	278	223
Net other post-employ benefit oblg.	17,056	3,675	-	20,731	-
Net pension oblg.	14,266	3,451	-	17,717	-
Total governmental long-term liabilities	$699,913	$71,481	($106,333)	$665,061	$42,878
Business-type activities:					
Water and sewer bonds	$110,220	$17,145	($10,690)	$116,675	$10,335
Premium on water and sewer bonds	1,573	-	(238)	1,335	-
Deferred loss on refunding	(1,673)	-	164	(1,509)	-
Storm water utility bonds	-	25,600	-	25,600	1,280
Premium on storm water utility bonds	-	1,265	(110)	1,155	-
Net water and sewer bonds payable	110,120	44,010	(10,874)	143,256	11,615
Compensated Absences	1,911	-	(319)	1,592	154
Total business-type long term liabilities	$112,031	$44,010	($11,193)	$144,848	$11,769

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, 2011, previously defeased debt still outstanding amounted to $27,865,000.

10. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2011, is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$8,625	$ -
Nonmajor Funds	-	8,625
	$8,625	$8,625

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2012.

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

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 16,794	$ 17,237
Debt Service Fund	-	4,050
Total Major Governmental Funds	16,794	21,287
Major Enterprise Fund-Water and Sewer	14,696	-
Major Enterprise Fund-Storm Water Utility	652	-
Other Funds:		
Nonmajor Governmental Funds	7,026	10,482
Internal Service Funds	2,371	9,770
Total All Funds	$41,539	$41,539

The combined Water and Sewer, Storm Water Utility, and Convention and Event Services transferred $4,006,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred $9,792,000 to Street Maintenance Fund, Special Transportation (Handitran), Arlington Property Finance Authority, Parks Performance Fund 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 $1,337,000 from the Convention and Event Services and Water and Sewer Funds 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 $7,276,000 reported as a landfill closure and post-closure accrued liability at September 30, 2011, represents the cumulative amount reported to date based on the use of approximately 65 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $1,579,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2011. 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 $6,173,000 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, 2011, 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, 2011. 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	$ 51,950	$ 6,635
Park Construction	21,083	631
Police Construction	-	3
Traffic Construction	6,123	2,192
Storm Water Utility Construction	17,570	1,600
Water and Sewer Construction	66,242	19,115
	$ 162,968	$ 30,176

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 and storm water utility construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer and storm water systems.

Litigation

The City accrued a $1,250,000 liability for the fiscal year ended September 30, 2011 to account for agreed-upon settlement of an APFA lawsuit filed against the City in 2002. The City paid the settlement amount in January, 2012, to a bankruptcy trustee with the understanding that after collection of the judgement and repayment of creditors, any excess amount would be returned to the City.

The City is currently involved in several lawsuits that are in appeals, with potential liability for the City; 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 2011 and 2010 were as follows (amounts in thousands):

	Workers Compensation		Health		APFA	
	2011	2010	2011	2010	2011	2010
Unpaid claims, Oct 1	$ 5,243	$ 5,306	$ 1,814	$ 1,694	$ 2,428	$ 2,748
Incurred Claims (including IBNRs and changes in estimates)	3,955	1,412	15,652	18,238	2,963	(147)
Claim payments	(2,902)	(1,475)	(15,676)	(18,118)	(1,984)	(173)
Unpaid claims, Sept 30	$ 6,296	$ 5,243	$ 1,790	$ 1,814	$ 3,407	$ 2,428

14. LEASES

A. As Lessee

As lessee, the City is committed under a lease for a building. This lease is considered for accounting purposes to be a capital lease. The liability for future capital lease payments totals approximately $84,000 and is reported as capital lease obligations current liabilities (approximately $67,000) and capital lease obligations non-current liabilities (approximately $17,000) in the General Fund.

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

Year ending September 30, 2011	Rental Payments
2012	70
2013	17
Total minimum future lease payments	87
Less: Amount representing interest	(3)
Present value of net minimum lease payments	$84

The City's investment in equipment under capital lease arrangements as of September 30, 2011 is $322,000.

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 2011 were approximately $265,375.

15. SETTLEMENT AGREEMENT

On April 27, 1999, 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 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 City on or before December 31 of each year as follows:

Year	Amount
2011	$ 1,000,000
2012	1,000,000
2013	1,000,000
2014	1,000,000
2015	1,000,000
2016 to 2020	5,000,000
2021 to 2024	4,000,000
	14,000,000
Less Discount	4,137,000
	$9,863,000

The total is reported as a settlement agreement receivable by the City. The payment in 2024 is due on or before March 1. By entering into this agreement, 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 City 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	
2012	$ 2,000,000
2013	2,000,000
2014	2,000,000
2015	2,000,000
2016	2,000,000
2017-2021	10,000,000
2022-2024	5,055,556
	25,055,556
Less Discount	9,204,607
Minimum future lease rentals	$15,850,949

17. CONDENSED COMPONENT UNIT INFORMATION

The City includes five discretely presented component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2011, for all discretely presented component units is as follows (amounts in thousands):

Condensed Schedule of Net Assets

	Arlington Tomorrow Foundation	Housing Authority	Other Discretely Presented Component Units	Total Discretely Presented Component Units
Current and other assets	$81,523	$ 7,628	$854	$ 90,005
Capital assets	-	493	136	629
Total assets	81,523	8,121	990	90,634
Other liabilities	2,717	874	237	3,828
Total liabilities	2,717	874	237	3,828
Net assets:				
Invested in capital assets, net of related debt	-	493	136	629
Restricted	78,806	2,438	-	81,244
Unrestricted	-	4,316	617	4,933
Total net assets	$78,806	$7,247	$753	$86,806

Condensed Schedule of Activities

	Arlington Tomorrow Foundation	Housing Authority	Other Discretely Presented Component Units	Total Discretely Presented Component Units
Expenses	$1,777	$28,733	$4,198	$34,708
Program Revenues:				
Charges for services	-	-	4,201	4,201
Operating grants and contributions		27,449	59	27,508
Net Program (Expense) Revenue	(1,777)	(1,284)	62	(2,999)
Interest Revenues	1,893	55	4	1,952
Other NonTax General Revenues	12,474	937	(1)	13,410
Change in Net Assets	12,590	(292)	65	12,363
Net Assets, October 1,	66,216	7,539	688	74,443
Net Assets, September 30	$78,806	$ 7,247	$ 753	$86,806

18. SUBSEQUENT EVENTS

There were no material subsequent events as of January 31, 2012.

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APPENDIX C

FORMS OF BOND COUNSEL OPINION

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[Form of Bond Counsel Opinion]

[Closing Date]

$31,320,000
CITY OF ARLINGTON, TEXAS
PERMANENT IMPROVEMENT AND
REFUNDING BONDS SERIES 2012A

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 2012A, dated June 1, 2012 in the principal amount of $31,320,000.
>
> 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 sufficiency 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 the defeasance of the commercial paper notes being refunded (the "Refunded Obligations"); a report (the "Report") of Grant Thornton LLP, Certified Public Accountants (the "Verification Agent") verifying the mathematical accuracy of certain computations of the yield on the Bonds; 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 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 purchaser with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial purchaser, 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 Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report 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]

$12,180,000
CITY OF ARLINGTON, TEXAS
PERMANENT IMPROVEMENT
REFUNDING BONDS SERIES 2012B

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 2012B, dated June 1, 2012 in the principal amount of $12,180,000.
>
> 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 (between the Issuer and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”); a report (the “Report”) of Grant Thornton LLP, Certified Public Accountants (the “Verification Agent”), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the “Refunded Obligations”) and the mathematical accuracy of certain computations of the yield on the Bonds and obligations acquired with the proceeds of the Bonds; 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 pursuant to the Escrow Agreement, 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 purchaser with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial purchaser, 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 Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report 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.

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