OFFICIAL STATEMENT DATED APRIL 21, 2009

NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AA+"
Moody's "Aa3"
Standard & Poor's "AA+"
See "OTHER INFORMATION – Ratings" herein.

In the opinion of Bond Counsel interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the 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.

$13,760,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Refunding Bonds, Series 2009

Dated: April 15, 2009 **Due: June 1, as shown on inside of cover page**

PAYMENT TERMS…Interest on the $13,760,000 City of Arlington, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2009 (the "Bonds") will accrue from April 15, 2009 (the "Dated Date") and will be payable on June 1 and December 1 of each year commencing December 1, 2009 until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds, will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE…The Bonds are issued as special obligations of the City of Arlington, Texas (the "City"), issued on parity with the currently Outstanding Bonds (as hereinafter defined). The Bonds are being issued pursuant to the general laws of the State of Texas, particularly, Chapter 1207, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance (the "Bond Ordinance") passed by the City Council, in which the City Council delegated to certain City officials authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Ordinance and Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds and are special obligations of the City, and together with the Outstanding Bonds and any Additional Bonds, are payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues (as defined in the Bond Ordinance) of the Water and Wastewater System (the "System"). The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by the levy and execution against the property owned by the City.

PURPOSE…Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding water and wastewater system revenue debt (the "Refunded Bonds") described in Schedule I to achieve debt service savings; and (ii) to pay costs of issuance associated with the sale of the Bonds.

REDEMPTION…The Bonds are not subject to redemption prior to maturity.

LEGALITY…The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Vinson & Elkins L.L.P., Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain matters will be passed upon for the Underwriters by their Counsel, Fulbright & Jaworski L.L.P., Dallas, Texas.

DELIVERY…It is expected that the Bonds will be available for delivery through DTC on May 27, 2009.

WELLS FARGO BROKERAGE SERVICES, LLC **PIPER JAFFRAY & CO.**

SIEBERT BRANDFORD SHANK & COMPANY, LLC

Maturity Schedule

(June 1) Maturity	Amount	Rate	Yield	CUSIP (1)	(June 1) Maturity	Amount	Rate	Yield	CUSIP (1)
2010	1,880,000	5.00%	1.03%	04184KGD1	2015	1,965,000	5.00%	2.58%	04184KGJ8
2011	1,335,000	4.00%	1.52%	04184KGE9	2016	1,960,000	5.00%	2.81%	04184KGK5
2012	1,010,000	2.00%	1.72%	04184KGF6	2017	1,360,000	5.00%	3.04%	04184KGL3
2013	985,000	2.00%	1.95%	04184KGG4	2018	1,355,000	5.00%	3.26%	04184KGM1
2014	955,000	2.75%	2.33%	04184KGH2	2019	955,000	4.00%	3.52%	04184KGN9

(Accrued interest from April 15, 2009 to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. 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 Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement, including the appendices and cover page thereto, does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise or guarantee of the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained 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 or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City, its Financial Advisors nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by the Depository Trust Company for use in this Official Statement.

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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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OFFICIAL STATEMENT SUMMARY

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

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

THE BONDS...................................... The $13,760,000 City of Arlington, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2009, dated April 15, 2009, are issued as serial bonds maturing June 1 in each of the years 2010 through 2019. (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from April 15, 2009 and will be paid on December 1, 2009, and on each June 1 and December 1 thereafter until maturity. (see "THE BONDS - Description of the Bonds" and "THE BONDS – Redemption").

AUTHORITY FOR ISSUANCE............. The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance (the "Bond Ordinance") passed by the City Council. In the Bond Ordinance, the City Council delegated to each certain City officials, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance") (see "THE BONDS – Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds, together with certain outstanding previously issued bonds (the "Outstanding Bonds") and any additional parity bonds which may be issued in the future (the "Additional Bonds"), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a first lien on the Net Revenues of the City's Water and Wastewater System. (the "System") (see "SELECTED PROVISIONS OF THE ORDINANCE – Definition"). **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

REDEMPTION................................... The Bonds are not subject to redemption prior to maturity.

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

USE OF PROCEEDS........................... Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding water and wastewater system revenue debt (the "Refunded Bonds") described in Schedule I to achieve debt service savings; and (ii) to pay costs of issuance associated with the sale of the Bonds.

RATINGS .... The Bonds and the presently outstanding revenue supported debt of the City have an underlying rating of "Aa3" by Moody's, "AA+" by S&P and "AA+" by Fitch. (see "OTHER INFORMATIONS - Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Bonds 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 Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds 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 Bonds (see "THE BONDS - 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.

QUALIFIED TAX-EXEMPT OBLIGATION..................... The Bonds are NOT designated as “Qualified Tax-Exempt Obligations” for financial institutions.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended September 30,	Estimated Population	Average Day Usage [1]	Water Usage Peak Day Usage [1]	Total Usage	Net Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt
2004	355,634	54.68	91.19	7,931,117	$31,712,000	$6,500,170	4.88x
2005	361,300	57.49	95.41	6,933,041	38,183,000	6,989,555	5.46x
2006	362,393	67.26	116.72	9,507,615	41,748,000	6,614,518	6.31x
2007	364,300	51.52	86.04	7,751,632	29,427,000	6,175,967	4.76x
2008	369,150	58.51	109.49	7,182,565	46,294,000	12,313,065	3.76x

[1] Listed in millions of gallons

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	9 years [1]	May, 2009	Doctor
Mel LeBlanc Council Member	2 years	May, 2010	Accounting Manager
Sheri Capehart Council Member	7 years [2]	May, 2010	Computer Security Analyst, Retired
Robert Rivera Council Member	3 years [2]	May, 2009	Real Estate Developer
Kathryn Wilemon Mayor Pro Tem	5 years	May, 2009	Community Volunteer
Lana Wolff Council Member	5 years	May, 2009	Community Volunteer
Gene Patrick Council Member	5 years	May, 2009	Small Business Owner
Robert Shepard Council Member	8 months [3]	May, 2010	Lawyer
Jimmy Bennett Council Member	8 months [3]	May, 2010	Certified Public Accountant

(1) Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.
(2) Served as Council member from May 1999 to May 2003.
(3) First elected June 2008

SELECTED ADMINISTRATIVE STAFF

Name	Position	Years of Employment with City
Jim Holgersson	City Manager	3
Fiona Allen	Deputy City Manager – Capital Investment	16
Bob Byrd	Deputy City Manager – Strategic Support	23 [1]
Gilbert Perales	Deputy City Manager – Neighborhood Services	2
Trey Yelverton	Deputy City Manager – Economic Development	15
April Nixon	Director, Financial Services	17
Jay Doegey	City Attorney	22
Karen Barlar	City Secretary	16

(1) Employed as Interim City Manager for 3 years.

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors — Deloitte & Touche LLP, Dallas, Texas

Bond Counsel — Vinson & Elkins L.L.P., Dallas Texas.

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

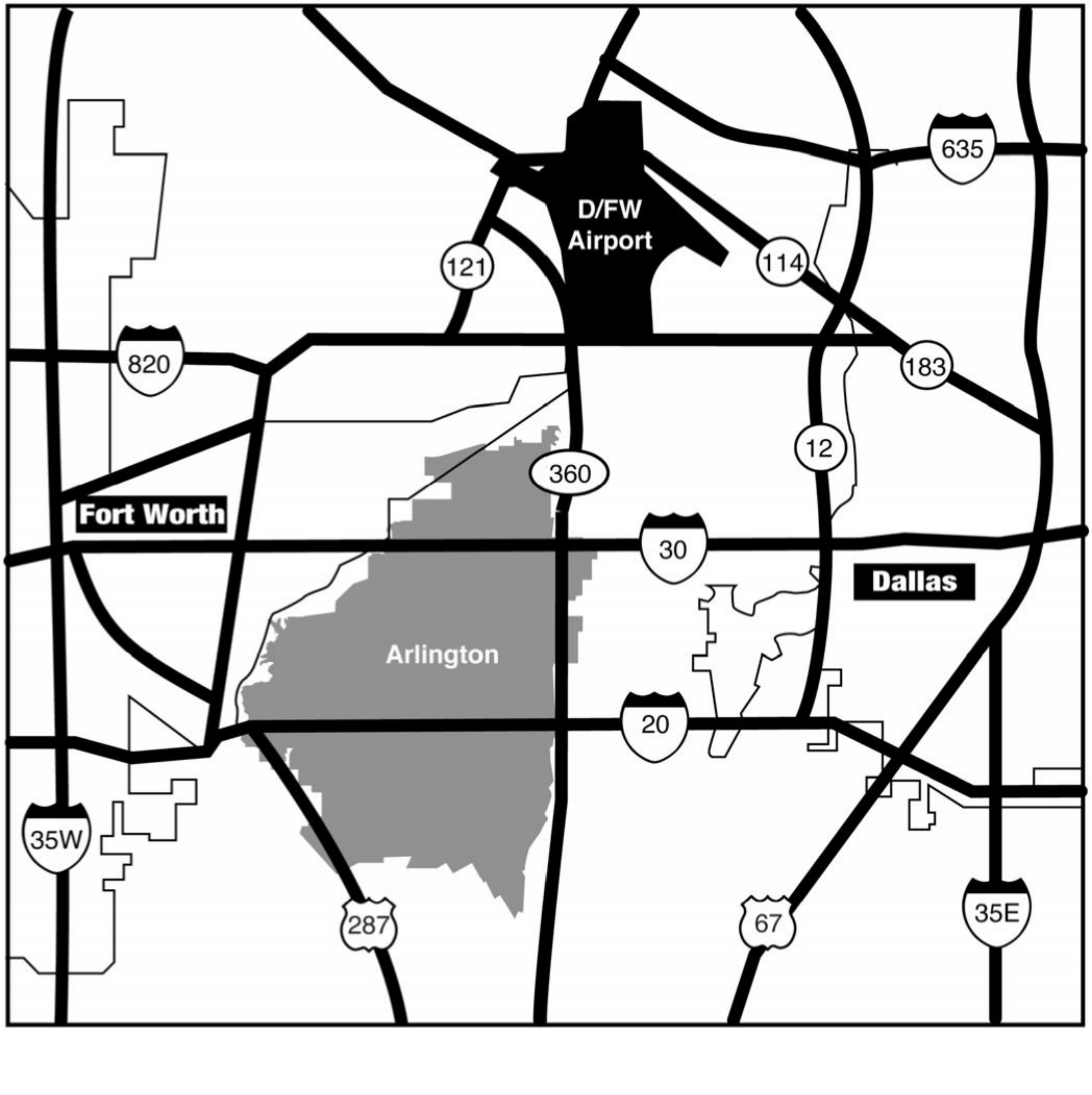
For additional information regarding the City, please contact:

Ms. April Nixon
Mr. Mike Finley
City of Arlington
101 W. Abram Street, 3rd Floor
Arlington, Texas
(817) 459-6100

or

Mr. Larry Jordan
Ms. Nicole Roberts
Estrada Hinojosa & Company, Inc.
1717 Main Street, Suite 4700
Dallas, Texas 75201
(214) 658-1670

Dallas/Fort Worth/Arlington Metropolitan Area



OFFICIAL STATEMENT

RELATING TO

$13,760,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Refunding Bonds, Series 2009

INTRODUCTION

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of $13,760,000 City of Arlington, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2009 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance (hereinafter defined) authorizing the issuance of the Bonds, except as otherwise indicated herein. Reference is made to "Selected Provisions of the Bond Ordinance" which contains defined terms and selected provisions of the Bond Ordinance that are summarized under "The Bonds."

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "FORWARD-LOOKING STATEMENTS").

DESCRIPTION OF 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, had a 2000 census population of 332,969. The City's Planning and Development Services Department estimates the current population of the City to be 369,150 residents. 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 wastewater utilities, and general administrative services. The City operates its water and wastewater system and its sanitary landfill operation as self supporting enterprise funds.

DESCRIPTION OF THE SYSTEM…The City's Water and Wastewater System (the "System") serves a 98.7 square mile area which is relatively coterminous with the corporate boundaries of the City. Administered and managed by the Arlington Water Utilities Department, the System serves approximately 146,200 water utility units.

The City owns and has water rights in Lake Arlington and contracts for additional water supply with the Tarrant Regional Water District ("TRWD"). TRWD provides the City water from the Cedar Creek, Richland Chambers and Benbrook Reservoirs.

Approximately 1,194 miles of sanitary sewer mains ranging in size from six to seventy-two inches comprise the wastewater collection system that services all developed areas within the City limits. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own sewage. The wastewater produced in the City is treated by the Trinity River Authority's Central Regional Wastewater Treatment Plant. (See "The System" herein for a detailed description of the System.)

PLAN OF FINANCING

PURPOSE…Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding water and wastewater system revenue debt (the "Refunded Bonds") described in Schedule I to achieve debt service savings; and (ii) to pay costs of issuance associated with the sale of the Bonds.

REFUNDED BONDS…Upon delivery of the Bonds the Ordinance provides that the City will deposit a portion of the proceeds from the sale of the Bonds with Wells Fargo Bank, N.A., Austin, Texas (the "Escrow Agent") pursuant to a certain Escrow Agreement (the "Escrow Agreement"). The amount of Bond proceeds so deposited, when added to other lawfully available funds contributed by the City, if any, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and a portion of such funds in the Escrow Fund will be used to purchase direct obligations of the United States of America or of any of its Agencies, or such obligations fully guaranteed by the United States of America (the "Federal Securities"). A portion of such funds in the Escrow Fund will be held by the Escrow Agent, uninvested and used to accomplish the discharge and final payment of the Refunded Bonds (defined in Schedule I) that will be redeemed on May 28, 2009, and June 1, 2009. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and amounts therein will not be available to pay the Bonds.

Grant Thornton LLP, a national recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds.** (See "Other Information – Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities, cash, and bond proceeds as described above, with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of all of the Refunded Bonds in accordance with Texas law and the ordinances authorizing the Refunded Bonds. 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 Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City, and the obligations of the City to make payments in support of the debt service on such Refunded Bonds will be extinguished.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

SOURCES AND USES OF PROCEEDS…

Sources:	
Par amount of the Bonds	$13,760,000.00
Accrued Interest	68,105.63
Premium	1,113,245.70
Transfers from prior issue debt service funds	342,341.39
Total Sources of Funds	$15,283,692.72
Uses:	
Deposit to Escrow Fund	$14,990,638.46
Deposit to Debt Service Fund	68,105.63
Total Underwriters' Discount	76,230.40
Costs of Issuance	148,718.23
Total Uses of Funds	$15,283,692.72

THE BONDS

DESCRIPTION OF THE BONDS… The Bonds are dated April 15, 2009 (the "Dated Date"), and mature on June 1 in each of the years and in the amounts shown on page ii hereof. Interest will accrue from the Dated Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on June 1 and December 1, commencing December 1, 2009 until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds – Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE…The Bonds are issued as special obligations of the City, and are being issued pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance (the "Bond Ordinance") passed by the City Council, and are special obligations of the City of Arlington, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the Water and Wastewater System (the "System").

In the Bond Ordinance, the City Council delegated to certain City officials, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," executed by one of such officials, which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance")

SECURITY AND RATE COVENANT…The Bonds, together with certain outstanding previously issued bonds (the "Outstanding Bonds") and any additional parity bonds which may be issued in the future (the "Additional Bonds"), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a first lien on the Net Revenues of the System (see "SELECTED PROVISIONS OF THE BOND ORDINANCE - Definitions"). **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

The City Council has covenanted in the Ordinance that it will maintain and collect charges for the use of the facilities and the services afforded by the System sufficient to pay all operation, maintenance, depreciation, replacement and betterment charges of the System, establish and maintain the Interest and Sinking Fund and Reserve Fund required for the Outstanding Bonds, the Bonds, and any Additional Bonds, and to produce Net Revenues each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding.

The City currently has Outstanding Bonds secured by and payable from Net Revenues on parity with the Bonds as follows:

Issue	Dated Date	Outstanding Debt
Waterworks & Sewer System Revenue Bonds, Series 1996	6/15/1996	$575,000
Waterworks & Sewer System Refunding & Improvement Revenue Bonds, Series 1997 (1)	6/15/1997	7,010,000
Water & Wastewater System Revenue Bonds, Series 1999 (2)	2/1/1999	4,000,000
Water & Wastewater System Revenue Bonds, Series 2001 (3)	3/1/2001	12,450,000
Water & Wastewater System Revenue Bonds, Series 2002	3/1/2002	10,500,000
Water & Wastewater System Revenue Refunding Bonds, Series 2003	2/15/2003	7,280,000
Water & Wastewater System Revenue Bonds, Series 2004	2/15/2004	11,840,000
Water & Wastewater System Revenue Bonds, Series 2005	3/1/2005	14,315,000
Water & Wastewater System Revenue Bonds, Series 2007	7/15/2007	22,800,000
Water & Wastewater System Revenue Bonds, Series 2008	6/15/2008	38,000,000

(1) The Bonds will refund $5,450,000 of the outstanding Series 1997.
(2) The Bonds will refund $3,600,000 of the outstanding Series 1999.
(3) The Bonds will refund $5,175,000 of the outstanding Series 2001.

DEBT SERVICE RESERVE FUND…The City has covenanted that it will maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate such Reserve Fund Requirement in not more than 60 months from the date of such Additional Bonds. Following delivery of the Bonds, the City will accumulate additional funds into the Reserve Fund, if necessary, to meet the Reserve Fund Requirement for the Bonds and the Outstanding Bonds. (See "SELECTED PROVISIONS OF THE BOND ORDINANCE - Various Funds.")

REDEMPTION …The Bonds are not subject to redemption prior to maturity.

BOOK-ENTRY-ONLY SYSTEM …*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name.* ***The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement.*** *The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds 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 Bonds, 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, 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 is the holding company for DTC,the 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 securities. 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, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest payments on the Bonds 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 Paying Agent/Registrar, on the 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, 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 to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct 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 Bonds at any time by giving reasonable notice to the City or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond 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, certificates will be printed and delivered.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT… In reading this Official Statement it should be understood that while the Bonds 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 Bonds, 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 Ordinance 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, the Financial Advisor or the Underwriters.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM…In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the City, printed certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Bond Ordinance, summarized under "THE BONDS- Registration" below.

REGISTRATION…Registration and Payment. The Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Bonds. Principal and semiannual interest on the Bonds 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 Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a 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 date payment was due.

Future Registration. In the event that DTC is no longer the securities depository for the Bonds and a successor securities depository is not appointed by the City, the Bonds 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. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Bond Ordinance. Such new Bonds must be in the denomination of $5,000 for any one maturity or any integral multiple thereof and for a like aggregate designated amount as the Bond surrendered for exchange or transfer. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar. See "Book-Entry Only System" herein for a description of the system to be utilized initially in regard to to ownership and transferability of the Bonds.

Successor Paying Agent/Registrar. Provision is made in the Bond Ordinance 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 Bonds. A successor Paying Agent/Registrar, if any, shall be determined by the City.

PAYING AGENT/REGISTRAR…The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Austin, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar’s records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or 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/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

BONDHOLDERS’ REMEDIES. . . The Ordinance establishes as "events of default" (i) the failure to make payments, and defaults in payments to be made to the Bond Fund or the Reserve Fund as required by the Bond Ordinance; or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Bond Ordinance. The Bond Ordinance provides that the bondholders are entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Bond Ordinance. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Bond Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds, 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 to seek to enforce the covenants of the City through an action for specific performance or mandamus. 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. Because it is not clear that the Texas Legislature has effectively waived the City’s immunity from suit for money damages, any Bondholder may not be able to bring such a suit against the City for breach of the Bonds or covenants in the Ordinance. 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." 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 Bond Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Bond Ordinance. 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).

The Bond Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, 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 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledged Net Revenues, and also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE SYSTEM

WATER FACILITIES

WATER TREATMENT FACILITY…Arlington currently operates two plants to treat and purify raw water prior to distribution for use. The Pierce-Burch Water Treatment Plant (PBWTP), located in west Arlington, treats raw water pumped into the plant from Lake Arlington. The PBWTP has a present ozonated treatment capacity of 75 million gallons per day (MGD). At this time, there are no plans to expand the plant. However, land is available at the site to accommodate an additional 100 MGD capacity treatment facility in the future, if needed.

The rapid population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JKWTP), located on US Highway 287 at Eden Road. The JKWTP began serving Arlington's citizens in May 1989. The plant receives its raw water directly from the Tarrant Regional Water District's (TRWD) Richland Chambers and Cedar Creek pipelines. Beginning in August 1998, TRWD also began delivering water from Lake Benbrook, a U.S. Army Corps of Engineers-owned reservoir. The JKWTP currently has a rated treatment capacity of 65 MGD and is currently under construction for expansion to a treatment capacity of 97.5 MGD by the spring of 2010. It can be further expanded as demand necessitates to an ultimate treatment capacity of 130 MGD.

THE DISTRIBUTION SYSTEM…The City's water distribution system is divided into three pressure planes, referred to as the Upper pressure plane, Ridge Pointe pressure plane, and Lower pressure plane. The Upper and Ridge Pointe pressure planes are supplied by the JKWTP, which is a newer, more energy efficient plant and is operated at maximum capacity whenever possible. The Pierce-Burch Water Treatment Plant supplies the remaining volume necessary to meet citywide demand in the Lower pressure plane. With this arrangement, the JKWTP normally supplies all of the water required by the Upper and Ridge Pointe pressure planes, and as much of the water as is possible in the Lower pressure plane. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are nine elevated storage tanks and nine ground storage tanks with a combined capacity of 47.7 million gallons. A tenth elevated tank is currently under construction.

The City's water distribution system is fully metered and consists of 1,402 miles of pipe. The System includes concrete cylinder, cast iron, polyvinyl chloride (PVC), and ductile iron pipes with a minimum diameter of six inches. The entire System meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency and the Texas Commission on Environmental Quality (TCEQ).

The City's water system has adequately met the demand for treating and distributing water during the past ten fiscal years as follows:

Fiscal Year	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)
1999	56.2	108.31
2000	63.89	128.23
2001	57.96	113.14
2002	57.76	112.88
2003	57.13	120.02
2004	54.68	91.19
2005	57.49	95.41
2006	67.26	116.72
2007	51.52	86.04
2008	58.51	109.49

Source: City Water Utilities Department.

WATER SUPPLY…TRWD is the primary supplier of raw water used by a total of 65 municipal and non-municipal entities located both within and outside of Tarrant County. Among the major customers of the TRWD are the cities of Fort Worth, Arlington, and Mansfield, and a wholesale water provider, the Trinity River Authority (TRA).

The City receives water from TRWD's Cedar Creek Reservoir, completed in 1964, and Richland Chambers Reservoir, completed in November 1987. Water from these reservoirs is transported through transmission facilities to Lake Arlington and the John F. Kubala Water Treatment Plant. In August 1998, TRWD also began delivering water from the U.S. Army Corps of Engineers-owned reservoir Lake Benbrook. This water supply service was initially provided under the terms and provisions of a contract dated July 13, 1971. Under that contract, TRWD agrees to supply all of the City's municipal water requirements during its term.

On September 1, 1982, TRWD entered into a revised water supply contract ("Amendatory Contract") with the City, and the cities of Fort Worth and Mansfield and TRA. The revised contract will continue in effect until all bonds of TRWD relating to TRWD's System have been paid, and thereafter during the useful life of TRWD's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from TRWD. TRWD is obligated to meet the City's needs by developing additional water supply sources, subject to force majeure, the ability of TRWD to obtain suitable financing and a determination of feasibility. If TRWD is unable to supply all of the City's raw water requirements or if it should become apparent that TRWD will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon TRWD to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if TRWD should fail to meet such needs. TRWD's current sources as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2030.

TRWD's most recent system enhancements include the Eagle Mountain Pipeline and continued development of the wetlands of Richland-Chambers Reservoir.

In May 1999, TRWD issued $22,725,000 (Series 1999) in Water Revenue Refunding and Improvement Bonds, which were issued to refund the Benbrook Lake Water Surplus Contract with the U.S. Army Corp of Engineers in the amount of $1,848,750, and to fund a Wetland Water Treatment System for Richland Chambers, and for construction, improvements and repairs to TRWD's Water system. In March 2001, $15,890,000 in Water Revenue Refunding Bonds (Series 2001) were issued to refund the Series 1992-A bonds. In March 2002, TRWD issued $331,430,000 in Water Revenue Refunding and Improvement Bonds (Series 2002) to refund the Series 1993 Bonds and to fund the acquisition and expansion of the Wetland Water Treatment System for Richland Chambers, for design/engineering of the pipeline connection to Eagle Mountain Lake and other construction, improvements and repairs to TRWD's Water System. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of Water Revenue Bonds, which were originally issued in 1979 (Series 1979-A) and have since been refunded with the Series 2002 Bonds. In 2006, TRWD issued $182,905,000 in Water Revenue Bonds for:

- acquisition and expansion of the Wetland Water Treatment system for Richland Chambers Reservoir;
- initial cost for a Wetland Water Treatment system for the Cedar Creek Reservoir;
- expansion and improvements to TRWD's water supply transmission system to Eagle Mountain Lake;
- acquisition and installation of control equipment for the Eagle Mountain Pipeline connection and Richland Chambers Wetland projects;
- engineering, acquisition and construction of a new communication system;
- engineering and studies for expansion of discharge facilities at Lake Arlington;
- acquisition and improvements to TRWD's existing water supply security system;
- acquisition of right-of-way and permanent and perpetual flowage easements for the System together with all other design, construction, improvements and repairs and studies and plans for TRWD's Water System;
- to fund a debt service reserve fund; and
- to pay the costs associated with the issuance of the Bonds.

Two bond issues were made in 2008, Series 2008A-RC Water Revenue Bond ($3,135,000) and 2008B-CC Water Revenue Bond ($6,755,000). The 2008A-RC Bonds were issued to support pre-construction efforts to complete the Richland-Chambers Reservoir Wetland Project. The 2008B-CC Bonds were issued to support pre-construction efforts for the Cedar Creek Wetlands Project. These bonds were issued as a part of the State's Water Infrastructure Fund set up to help finance implementation of projects identified in the 2007 State Water Plan.

TRWD estimates that the existing and permitted water supply system has adequate water to meet its customers' projected water requirements through the year 2030. TRWD has participated in the statewide regional water planning effort authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Fort Worth region includes plans for TRWD to develop an additional 622 MGD through the year 2060 at an estimated cost of $3.6 billion. These projects include water conservation, reuse, reservoir and pipeline construction.

Under the terms of the Amendatory Contract, the City pays TRWD an amount equal to the City's proportionate share of TRWD's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of TRWD's raw water supply facilities, debt service on TRWD's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in TRWD's bond resolutions. Based upon the projected usage of the City for the 2008-2009 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,191,405, which results in a rate of approximately 66.814 cents per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay TRWD for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods.
The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirements to make such payments from the revenues of the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds, the Bonds and any Additional Bonds.

DROUGHT CONTINGENCY PLAN…The City continues to work closely with TRWD to plan for the implementation of drought contingency measures, should drought conditions arise.

TRWD updated its Water Conservation and Drought Contingency Plans in May 2005, in accordance with the Texas Commission on Environmental Quality (TCEQ) directives. The plans were revisited and, with guidance from major customers, revised in May 2007 following the most recent drought, which occurred during 2005 and 2006. Regular meetings were held to discuss evolving approaches to water conservation and extending supplies during drought or emergency situations. TRWD's customers had extensive input defining drought conditions and prescribing conservation measures related to each drought stage. All major customers agreed to specific, staged measures related to emergency conditions brought on by drought-induced water supply depletion or failure of components in TRWD's supply system.

The latest Drought Contingency Plan reduced the number of drought stages from four to three. Based on a statistical analysis of 43-year weather patterns in North Texas and their potential effects on water supplies, new drought triggers were established. The revised responses for each drought stage are triggered by two sets of conditions – water supply levels or excessive demand and emergency situations. Drought stages are triggered when the total combined raw water supply within the TRWD reservoir system drops below 75, 60 and 45 percent of conservation storage. Other conditions that would activate a drought response would include situations where:

- Water demand exceeds the amount that can be delivered to customers.
- Water demand for all or part of the TRWD delivery system exceeds delivery capacity because delivery capacity is inadequate.
- One or more of TRWD's water supply sources has become limited in availability.
- Water demand is projected to approach the limit of permitted supply.
- Supply source becomes contaminated.
- Water supply system is unable to deliver water due to the failure or damage of major water system components.
- The General Manager of TRWD, with concurrence of the TRWD Board of Directors, finds that conditions warrant the declaration of a drought stage.

In conjunction with TRWD, the City adopted its own Water Conservation and Drought Contingency Plans in May 2005, as directed by TCEQ. This Drought Contingency Plan identifies and explains water management practices that will protect water supplies during short and long term emergency situations. The May 2005 Water Conservation Plan implemented by the City includes water conservation goals and practices to address long term reductions in water demands by residents.

The City updated its Draught Contingency Plan in April 2008 and plans to update its Water Conservation plan in April 2009 to incorporate changes and revisions made in the 2007 TRWD Plans. The new plans include more water conservation measures and actions based on the revised triggers. Because of the strategy to adopt long term water conservation programs and a proactive approach to address drought conditions and manage emergency demand, combined with historical planning and system development initiatives, the City does not anticipate any system supply problems. The new drought triggers and ensuing actions established by the TRWD will increase available water supplies by a projected three to four times the amount that would have been available under the 2005 plan. However, additional steps will be taken in the event water supplies reach critical levels to ensure that the financial condition of the System remains strong.

This proactive approach to addressing drought conditions and managing emergency demand, combined with an excellent track record in planning and system development initiatives, the City does not anticipate any system supply problems. However, steps will be taken in the event of a prolonged drought to ensure that the financial condition of the System remains strong

CONSUMER ANALYSIS DATA…The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2004, through September 30, 2008.

	Average Daily Consumption (MGD)				
Category	**2008**	**2007**	**2006**	**2005**	**2004**
Residential	27.97	23.81	35.49	27.72	25.50
Commercial	10.77	10.49	12.52	11.20	11.63
Fire lines, Sprinkers	5.61	4.19	7.38	5.07	4.60
Apartment Units	8.58	8.40	9.00	8.77	9.03
Mobile Homes, Condominiums, Townhouses	0.68	0.58	0.63	0.80	0.79
Total	53.61	47.47	65.02	53.56	51.55

Source: City Water Utilities Department.

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2004, through September 30, 2008.

Category	Number of Units Served 2008	2007	2006	2005	2004
Residential	91,704	90,978	90,080	89,613	88,289
Commercial	3,945	3,725	3,761	3,772	3,821
Fire lines, Sprinkers	2,050	2,202	2,070	2,027	1,997
Apartment Units	47,108	45,069	45,971	45,093	41,059
Mobile Homes, Condominiums, Townhouses	3,134	4,077	4,344	4,222	4,166
Total	147,941	146,051	146,226	144,728	139,332

Source: City Water Utilities Department.

The following is a listing of the top ten water customers of the City, ranked by consumption for the fiscal year ended September 30, 2008. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 9.18 percent of the System's water sales, were as follows:

	Consumption in 1,000 Gallons	Billing
Arlington Independent School District	398,928	$1,295,316
City of Arlington	297,278	766,185
University of Texas at Arlington	284,374	1,078,916
National Semiconductor	226,155	429,730
EUSB/General Motors	186,406	360,502
Six Flags Park	137,451	270,320
Mansfield Independent School District	75,336	292,690
Atriums on the Creek	65,893	131,653
Six Flags Hurricane Harbor	62,236	112,611
Indian Creek Apartments	58,760	128,956
Total	1,792,817	4,866,879

Source: City Water Utilities Department.

The following table lists certain data on historical water consumption during the last five fiscal years.

	Historical Water Consumption Data (Inside City Limits)					
Fiscal Year Ended (9/30)	**Total Accounts in Service**	**Total Water Pumped MG**	**Average Water Pumped MGD**	**Maximum Day Pumpage MGD**	**GDP Per Account**	**Ratio Maximum Day to Average Day**
2004	101,057	20,013	54.68	91.19	543	1.67
2005	102,421	20,984	57.49	95.41	561	1.66
2006	102,518	24,545	67.26	116.72	656	1.74
2007	103,689	18,434	51.52	86.04	487	1.67
2008	105,947	20,979	58.51	109.49	543	1.87

Source: City Water Utilities Department.

WASTEWATER FACILITIES... The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,194 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by TRA's Central Regional Wastewater System (CRWS). The City's annual volume of contributing flow amounts to approximately 29 percent of the total wastewater flow into the CRWS Plant. As the city with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the TCEQ and the Environmental Protection Agency (the EPA).

The following is a list of Arlington's wastewater flows treated by TRA's CRWS plant during the last five fiscal years.

	Wastewater Treated (Millions of Gallons)				
	2008	2007	2006	2005	2004
TRA CRWS Plant	14,391	14,940	13,942	15,168	15,522

TREATMENT CONTRACT WITH TRINITY RIVER AUTHORITY… The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of Arlington's wastewater when facilities constructed by Arlington were completed in September 2000. These pipeline facilities convey west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This Arlington to TRA pipeline project cost was $11,000,000. The transfer of west Arlington's wastewater flows from the Fort Worth Village Creek Regional Plant to this pipeline began in September 2000. Cash balances of the Water Utilities Department funded this project.

In 1989, TRA sold $134.75 million in System Revenue Bonds to fund an expansion of the System's treatment plant from 100 to 135 MGD, which was placed into operation in early 1994. Subsequently in 1992, an additional $33.0 million in System Revenue Bonds were issued to fund improvements required primarily in the System's 200 mile network of large diameter pipelines over the first half of a five-year planning period. These improvements increased the capacity of numerous segments of the pipelines, rehabilitated pipelines and initiated several engineering evaluations to define required improvements to the plant and pipelines in the future. In 1995, TRA issued $43.515 million in System Revenue bonds to fund the remaining portions of the 1992-1996 capital plans. A new five-year plan for 1997-2001 resulted in relief and rehabilitation of interceptors and plant improvements. Initial funds of $49 million were obtained from the 1998A bond issue. Also in 1998, $67 million in bonds were refunded through TRA's issuance of the 1998B Revenue Refunding Bonds. In 2001 TRA issued an additional $88.2 million in System Revenue Bonds through the Texas Water Development Board for plant improvements and relief pipeline construction as identified in the 2001 Capital Improvement Plan update. In early fiscal year 2003, TRA issued $136 million in refunding bonds to pay off the Series 1993 bonds. This results in a debt service savings to the City.

TRA's updated five-year capital improvement plan for 2004-2009 has been completed, including treatment process improvements and interceptor rehabilitation. Initial funds of $106 million were obtained from a 2004 bond issue. Additional bonds in the amount of $9.5 million were issued in 2005 for land acquisition and other related wastewater system improvements. In April 2007, a new update of the five-year capital improvement plan was issued outlining plans for expanding plant capacity from 162 MGD to 189 MGD, as well as badly needed relief (parallel) pipeline system construction. The estimated cost for these projects totals $300 million, and funding was obtained from the Texas Water Development Board at below-market rates. The current plan includes a $120 million bond issuance which took place in June 2007. TRA has requested State Revolving Funds from the TWDB for FY 2009, which can be used for up to 2 years from the authorization date, but the planning of the actual bond sizing and issuance is still being developed based on a prioritization of needs and cost impacts. If any portion of these funds are used in FY 2009, it would be structured so there would be no impact on the FY 2010 budget revenue required from the Cities.

The 162 MGD CRWS Plant is situated on a 500 acre site in Grand Prairie. The CRWS Plant uses a conventional activated sludge process enhanced for nitrification followed by filtration. Effluent quality discharged to the West Fork of the Trinity River has met all regulatory requirements. The plant was selected by the state and federal regulatory agencies as the best large treatment plant in EPA's Region 6 five-state area during 1996 and received the National Association of Clean Water Agencies Platinum Award for the second time in 2006, each award signifying five continuous years of Gold Awards (100% permit compliance). The CRWS Plant received another Gold Award for fiscal year 2007 under the Agencies revised rules. A portion of the treated effluent is delivered for beneficial reuse to lakes in the Las Colinas area of Irving, where it is used for irrigation and lake and canal level control. Revenue from this sale is credited to the parties of the CRWS.

Plant solids removed by this treatment plant are now being beneficially reused by a land application program, which exports all biosolids from the plant site. An onsite sludge monofill exists with a 20-year remaining life, as a backup to the land application program and to provide an alternative disposal method in the event contractor failure or other unanticipated failure occurs.

For TRA's fiscal year beginning December 1, 2008, the volume of contributing flow by the City is estimated to average 40.876 MGD, which amounts to approximately 28.4 percent of the total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS Plant customers. The City's current cost of wastewater treatment under this contract budgeted for 2009 is $22,071,990.

In addition, the City is a party to a contract (the "Arlington Project Contract") dated October 10, 1973, under which TRA constructed certain improvements to the City's System with the proceeds of its revenue bonds, which the City, by the terms of the contract, was to pay, together with certain fees and administrative overhead. The payment of these bonds was completed in August 2000, as was the final administrative overhead payment.

The facilities constructed by TRA related to the Arlington Project Contract are integral parts of the System and are maintained and operated by the City. Ownership of such facilities was vested in the City when all of the TRA bonds were paid. The improvements to the System financed by TRA consist of the raw water pumping station on Lake Arlington and certain major wastewater collection lines.

TREATMENT CONTRACT WITH CITY OF FORT WORTH…Until September 2000, approximately 35 percent of the City's wastewater was treated at the City of Fort Worth's Village Creek Regional Plant. Under the terms of a five-year contract, dated July 11, 1996, the City completed the pipeline and other facilities to divert its wastewater and sludge to the Trinity River Authority's CRWS Plant. The City has negotiated a contract with Fort Worth for the transportation charges associated with the right to divert excess wastewater from their Village Creek Interceptor to the Arlington Rush Creek Interceptor until improvements, which are currently under construction, can be completed by Fort Worth to carry this flow or until the treatment capacity allotted to the City is maximized.

TABLE 1 - PRO FORMA DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Outstanding Bonds of the Water and Wastewater System, formerly known as the Waterworks and Sewer System.

Fiscal Year Ended 9/30	Existing Debt Service (1) Principal	Interest	Total	Water & Wastewater Refunding Bonds, Series 2009 (2) Principal	Interest (2)	Total	Total Debt Service Requirements	% of Principal Retired	Fiscal Year Ended 9/30
2009	10,090,000	4,411,958	14,501,958	-	-	-	14,151,836		2009
2010	8,110,000	3,838,548	11,948,548	1,880,000	658,354	2,538,354	11,851,658		2010
2011	8,080,000	3,587,728	11,667,728	1,335,000	489,763	1,824,763	11,570,996		2011
2012	8,055,000	3,311,153	11,366,153	1,010,000	436,363	1,446,363	11,269,915	36.75%	2012
2013	7,605,000	3,017,953	10,622,953	985,000	416,163	1,401,163	10,529,865		2013
2014	7,165,000	2,727,723	9,892,723	955,000	396,463	1,351,463	9,798,685		2014
2015	6,115,000	2,449,853	8,564,853	1,965,000	370,200	2,335,200	8,468,803		2015
2016	5,590,000	2,228,883	7,818,883	1,960,000	271,950	2,231,950	7,721,083	60.68%	2016
2017	5,590,000	2,023,558	7,613,558	1,360,000	173,950	1,533,950	7,519,258		2017
2018	5,590,000	1,814,738	7,404,738	1,355,000	105,950	1,460,950	7,308,188		2018
2019	5,590,000	1,611,278	7,201,278	955,000	38,200	993,200	7,107,728		2019
2020	6,625,000	1,403,059	8,028,059	-	-	-	8,028,059	80.71%	2020
2021	5,590,000	1,138,779	6,728,779	-	-	-	6,728,779		2021
2022	4,780,000	921,611	5,701,611	-	-	-	5,701,611		2022
2023	4,780,000	742,061	5,522,061	-	-	-	5,522,061		2023
2024	3,990,000	559,100	4,549,100	-	-	-	4,549,100	93.69%	2024
2025	3,100,000	406,150	3,506,150	-	-	-	3,506,150		2025
2026	3,100,000	292,300	3,392,300	-	-	-	3,392,300		2026
2027	3,100,000	177,500	3,277,500	-	-	-	3,277,500		2027
2028	1,900,000	61,750	1,961,750	-	-	-	1,961,750	100.00%	2028
	$ 114,545,000	$ 36,725,678	$ 151,270,678	$ 13,760,000	$ 3,357,354	$ 17,117,354	$ 149,965,323		

(1) Does NOT include the Refunded Bonds.
(2) Interest on the Bonds has been calculated at the rates shown on the inside cover page hereof. Average life of the issue is 5.537 years.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM…The City's Water Utilities Department maintains a program of annually updating its estimate of foreseeable System capital improvements. This is accomplished through the joint efforts of the Operations, Treatment and Business Services Divisions of the Water Utilities Department and independent consulting engineers. The Water Utilities Department annually reviews its proposed Capital Improvement Program with the City Council.

The following table represents the estimated amount of financing needed to meet the proposed Capital Improvement Program for the fiscal years shown.

PROPOSED CAPITAL IMPROVEMENT PROGRAM

PROPOSED CAPITAL IMPROVEMENT PROGRAM

Fiscal Year [4]	Planned Capital Expenditures	Texas Water Development Board [1]	Planned Bond Sale [2]	Other Capial Financial Sources [3]
2009	70,896,000	41,896,000	16,000,000	13,000,000
2010	42,000,000	12,000,000	17,000,000	13,000,000
2011	30,000,000	0	17,000,000	13,000,000
2012	30,000,000	0	17,000,000	13,000,000
2013	30,000,000	0	17,000,000	13,000,000

(1) Texas Water Development Board Drinking Water State Revolving Fund loan will be used to fund the John F. Kubala Water Treatment Plant expansion.

(2) Water Utilities has $40 million in Commercial Paper authority. This may be issued in lieu of or in combination with bonds.

(3) Includes annual budgeted amounts for the water and wastewater main replacement program, cash contributions from the operating fund to the capital fund and remaining bond proceeds.

(4) Total funding for FY 2009 includes funding for the FY 2008 and FY 2009 capital improvement programs.

WATER AND WASTEWATER RATES…The Council is authorized by its home rule charter and by laws of the State of Texas to establish and to amend rates charged for water and wastewater service. Rates so fixed by the Council for domestic application are not subject to review by any other regulatory agency.

In August 2003, the City Council approved transitioning to a phased cost of service rate methodology and the introduction of conservation rate blocks. In order to minimize the impact to rate payers of implementing a full cost of service rate structure, cost of service rates were phased in over a five-year period, which began with fiscal year 2004. The two components of the rate structure are a fixed monthly charge based upon meter size and a commodity charge per 1,000 gallons used.

A separate fixed monthly fee scale was established for residential class customers with ¾-inch meters whose water and wastewater use is less than 2,000 gallons per month. The fixed charge for meter sizes other than ¾-inch increases with meter size to recognize the additional demands that large meter installations place on the system.

The water commodity charge is designed to encourage customers to efficiently use water. The commodity charge increases with higher volumes of water usage for both residential and commercial class customers. Unlike the variable water commodity rate, the wastewater commodity rate per 1,000 gallons is a flat rate for all account classifications that will not change based on usage. Beginning in fiscal year 2004, the 2,000 gallon volume credit was removed from the wastewater fixed monthly charge.

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE
Effective October 1, 2008

Meter Size	Water	Wastewater
3/4" (≤ 2,000 gal)	$ 4.90	$ 4.00
3/4" (≥ 3,000 gal)	8.47	7.77
1"	14.82	13.60
1 1/2"	33.88	31.08
2"	59.29	54.39
3"	136.04	72.21
4"	218.36	125.22
6"	507.69	286.00
8"	795.56	450.95
10"	1,195.03	676.39

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE
Effective October 1, 2008

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 – 2	$1.36	$2.92
3 - 10	1.93	2.92
11 - 15	2.91	2.92
16 - 29	3.35	2.92
≥ 30	4.00	2.92

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0 - 15	$1.93	$2.92
≥ 16	2.08	2.92

IRRIGATION

Usage (1,000 gal)	Rate
0 - 29	$3.35
≥ 30	4.00

CONSTRUCTION

Usage (1,000 gal)	Rate
All Usage	$4.50

HISTORICAL RATE ADJUSTMENTS…Changes in revenue requirements during the past twenty years have resulted in the following changes in rates for the average residential customer. An average residential customer uses 10,000 gallons of water. Until December 1988, they were also billed for up to 12,000 gallons of wastewater flows. At that time, the wastewater maximum for residential customers was reduced to 9,000 gallons. Since March 1990, wastewater flows have been based on average winter water consumption. Each residential customer's maximum wastewater flows are calculated according to their water use during the billing periods of December through March. The overall system winter average for a residential customer is approximately 6,000 gallons.

Rate Changes by Percent
Last Ten Fiscal Years
Average Residential Customer
Using 10,000 Gallons Water and 6,000 Gallons Wastewater

Fiscal Year	Water	Wastewater	Total
1999	0.0	0.0	0.0
2000	(3.2)	0.0	(2.1)
2001	(1.6)	0.0	(1.1)
2002	1.7	1.6	1.7
2003	0.0	0.0	0.0
2004	(6.8)	49.3	12.4
2005	3.3	3.4	3.3
2006	0.2	4.2	2.0
2007	(1.7)	10.2	3.8
2008	7.8	3.1	5.5

Source: City Water Utilities Department.

OPERATING RESERVE…The current policy, authorized by the City Council in May 2003, requires the operating reserve to equal a minimum of 45 days of the proposed operating and maintenance expense budget, excluding debt service. Additionally, the reserve can be increased to a 60 day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2008, was $11,700,236, which equals 60 days of operating and maintenance expense.

HISTORICAL FINANCIAL INFORMATION…The following three tables present five-year historical information and selected financial ratios for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report. Selected amounts and ratios in the tables are unaudited as noted. The tables are titled Water and Wastewater Statement of Net Assets, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

TABLE 2- WATER AND WASTEWATER SYSTEM SCHEDULE OF NET ASSETS

	Fiscal Years Ended September 30,				
	2008	**2007**	**2006**	**2005**	**2004**
Assets					
Cash and cash equivalents	$12,231	$12,231	$13,183	$12,526	$11,777
Receivable (net allowances for uncollectibles)	13,931	12,909	14,391	13,746	11,560
Inventory of Supplies, at cost	496	444	404	432	482
Restricted assets					
Bond Contingency	11,206	10,713	10,586	11,612	10,884
Capital/Bond contruction	35,712	30,576	43,209	39,516	32,491
Meter deposits	4,880	4,725	4,129	3,996	3,635
Property, plant and equipment less accumulated depreciation	511,301	498,463	451,030	436,325	414,073
Total Assets	$589,757	$570,061	$536,932	$518,153	$484,902
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	4,965	4,837	4,465	4,348	3,627
Payable from restricted assets	15,719	12,933	10,254	11,262	10,712
Accrued compensation absences					
Current	137	113	112	71	85
Non Current/Long Term	1,779	1,775	1,548	1,481	1,593
Revenue bonds, net of discount, payable from unrestricted assets	89,347	95,819	80,844	90,779	83,927
Total Liabilities	$111,947	$115,477	$97,223	$107,941	$99,944
Net Assets/Equity					
Invested in Capital Assets	453,210	428,961	387,534	380,515	342,545
Restricted	9,753	9,097	9,273	10,041	9,460
Unrestricted	14,847	16,526	42,902	19,656	32,953
Total Assets/Equity	$477,810	$454,584	$439,709	$410,212	$384,958
Total Liabilities and Net Assets/Equity	$589,757	$570,061	$536,932	$518,153	$484,902

TABLE 3 - HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE

	Fiscal Years Ended September 30,				
	2008	**2007**	**2006**	**2005**	**2004**
Revenues					
Water Sales	$54,312	$43,693	$58,571	$50,034	$44,857
Wastewater Service	42,208	40,246	38,052	37,094	37,615
Interest Income	3,388	2,744	2,930	1,731	1,112
Other Income	5,804	4,847	6,122	5,016	6,002
Total Revenues	$105,712	$91,530	$105,675	$93,875	$89,586
Expenses					
Labor Costs	12,959	12,917	12,846	13,848	13,018
Supplies	3,576	2,356	2,937	2,226	1,924
Maintenance	2,779	2,493	2,764	2,105	1,964
Water Supply (TRWD)	11,782	12,549	13,738	10,761	12,697
Wastewater Treatment Contracts	19,606	19,364	18,179	15,906	16,070
Utilities	3,562	3,155	3,831	2,505	1,907
Other Expenses [1]	3,962	8,210	8,876	7,788	9,977
Total Operating Expenses Before Depreciation	$58,226	$61,044	$63,171	$55,139	$57,557
Net Revenues of the System	$47,486	$30,486	$42,504	$38,736	$32,029
Interest During Construction Included Above	(1,192)	(1,059)	(756)	(553)	(317)
Net Revenues Available for Debt Service	$46,294	$29,427	$41,748	$38,183	$31,712
Debt Service Paid [2]	$12,422	$13,139	$14,508	$14,115	$14,552
Debt Service Coverage (times)	3.73 x	2.24 x	2.88 x	2.71 x	2.18 x

(1) Beginning in 2008 Franchise Fees were not included in Other Expenses. Beginning in 2005 Payment in Lieu of Taxes was not included in Other Expenses.

(2) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.

TABLE 4- HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS

	Fiscal Years Ended September 30,				
	2008	2007	2006	2005	2004
Gross Operating Revenues	$102,324	$88,786	$102,745	$92,144	$88,474
Interest Revenues (Excluding Interest During Contruction)	2,196	1,685	1,178	1,178	795
Operating Expenses Before Depreciation [(1)]	58,226	61,044	63,171	55,139	57,557
Net Revenues Available for Debt Service	$46,294	$29,427	$41,748	$38,183	$31,712
Average Annual Debt Service	$6,486	$6,659	$6,176	$6,615	$6,078
Average Annual Debt Service Coverage (times)	7.14 x	4.42 x	6.76 x	5.77 x	5.22 x
Accounts Receivable to Gross Operating Revenues (%)	13.61%	14.54%	14.01%	14.92%	13.07%
Unrestricted Cash to Unrestricted Current Liabilities (times)	3.73 x	2.24 x	2.88 x	2.83 x	3.19 x
Unrestricted Current Assets to Unrestricted Current Liabilities (time)	5.23 x	5.17 x	6.11 x	6.04 x	6.44 x
Long-term debt to Net Plant (%)	17%	19%	17%	19%	19%

[(1)] Beginning in 2008, Franchise Fees were not included in Other Expenses. Beginning in 2005 Payment in Lieu of Taxes was not included in Other Expenses.

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 INVESTMENT… Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change. 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 and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch office in Texas, and 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 obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or are invested by an investing entity through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256, as amended); (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-l" or "P-l" 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-l" or "P-l" 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-load 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 the 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 may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-l et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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; that address investment diversification, yield, maturity and that quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objects concerning: (1) suitability of investment type; (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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) 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; (3) 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 imprudence investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation and advisory board requirements.

CURRENT INVESTMENTS…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, 2008, the following percentages of the City's operating funds were invested in the following categories of investments:

TABLE 5 - CURRENT INVESTMENTS [(1)]

Type of Investment	% Invested
US Treasury Notes and Bills	0.36%
Federal Agencies	60.65%
Statewide Pool [(2)]	38.99%
Totals	100.00%

[(1)] Reflects current investments for all City funds.
[(2)] The City currently invests in TexStar, TexPool and TexDaily.

As of March 31, 2008, the weighted average maturity of the City's operating portfolio was 179 days and the market value of the operating portfolio was 100 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.

SELECTED PROVISIONS OF THE BOND ORDINANCE

The following is a summary of certain provisions of the Ordinance that authorizes the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof. Copies of the Ordinance are available from the Department of Finance of the City of Arlington upon request.

The Bonds are parity "Additional Bonds" as defined in the Ordinance. The Bonds, the Outstanding Bonds and any Additional Bonds hereafter issued, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Net Revenues of the System.

DEFINITIONS

(a) The term "Additional Bonds" means the additional parity bonds which the City reserves the right to issue under the Ordinance.

(b) The term "Bonds" means the City's Water and Wastewater System Revenue Refunding Bonds, Series 2009.

(c) The term "Net Revenues" means all income, revenues, and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of monies in the special Funds created by the Ordinance or ordinances authorizing the issuance of the Outstanding Bonds and any Additional Bonds) after deducting and paying, and making provision for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues." Contractual payments for the purchase of water or the treatment of sewage shall be maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

(d) The term "Outstanding Bonds" means the City's outstanding: Waterworks and Sewer System Revenue Bonds, Series 1996, authorized by an Ordinance of the City Council passed on June 18, 1996; Waterworks and Sewer System Refunding and Improvement Revenue Bonds, Series 1997, authorized by an Ordinance of the City Council passed on June 17, 1997; Water and Wastewater System Revenue Bonds, Series 1999, authorized by an Ordinance of the City Council passed on February 9, 1999; and Water and Wastewater System Revenue Bonds, Series 2001, authorized by an Ordinance of the City Council passed on March 13, 2001; and Water and Wastewater System Revenue Bonds, Series 2002, authorized by an Ordinance of the City Council passed on March 12, 2002; and Water and Wastewater System Revenue Refunding Bonds, Series 2003, authorized by an Ordinance of the City Council passed on February 25, 2003; and Water and Wastewater System Revenue Bonds, Series 2004, authorized by an Ordinance of the City Council passed on February 24, 2004; Water and Wastewater System Revenue Bonds, Series 2005, authorized by an Ordinance of the City Council passed on March 8, 2005; Water and Wastewater System Revenue Bonds, Series 2007, authorized by an Ordinance of the City Council passed on July 17, 2007; and the Water and Wastewater System Revenue Bonds, Series 2008, authorized by an Ordinance of the City Council passed on June 15, 2008.

(e) The term "System" means the City's existing combined water system and wastewater system, formerly known as the City's combined waterworks and sewer system, including all properties (real, personal or mixed and tangible or intangible) owned, operated, maintained, and vested in, the City for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacements and improvements thereto.

RATES…The City will fix and maintain rates and charges for the facilities and services afforded by the System which will provide revenues annually at least equal to the amount required to pay for all operation, maintenance, replacement and betterment charges of the System; establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in the Ordinance and in ordinances relating to the Outstanding Bonds and any Additional Bonds; and produce Net Revenues (exclusive of depreciation) each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding.

VARIOUS FUNDS…The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special Funds shall be established and maintained in an official depository bank of the City so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or interest coupons appertaining thereto are outstanding and unpaid: the "Revenue Fund," the "Interest and Sinking Fund" and the "Reserve Fund."

Revenue Fund. The City shall deposit, from day to day as collected, all revenues of every nature derived from the operation of the System into the Revenue Fund and the money from time to time on deposit therein shall be appropriated to the following uses in the following order of priority, to wit: (a) to the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by law; (b) to the Interest and Sinking Fund and Reserve Fund when and in the amounts required by the Ordinance and ordinances authorizing the Outstanding Bonds, and any Additional Bonds and for the payment of the principal of and interest on the Bonds the Outstanding Bonds and any Additional Bonds when and as due and payable and for the creation of a reserve therefore; and (c) to any other purpose of the City now or hereafter permitted by law.

Interest and Sinking Fund. The Interest and Sinking Fund shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds, the Bonds, and any Additional Bonds as such principal matures and such interest becomes due and payable.

Reserve Fund. The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount of Reserve Fund Obligations equal to not less than the average annual principal and interest requirements on the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that, upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate the amount to be deposited in the Reserve Fund in accordance with the requirements set forth in the Ordinance and the ordinances authorizing the Outstanding Bonds. For so long as the funds on deposit in the Reserve Fund are equal to the Reserve Fund Requirement, no additional deposits need to be made therein, but should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the City shall restore such deficiency by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/24th of the Reserve Fund Requirement on or before the 10th day of each month following such deficiency, termination, or expiration. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds, the Outstanding Bonds and any Additional Bonds in the event that there are not sufficient monies on deposit in the Interest and Sinking Fund for such purpose. The City may, at its option, withdraw all surplus in the Reserve Fund over the Reserve Fund Requirement and deposit same in the Revenue Fund; provided, however, that to the extent such monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used. For the purpose of determining compliance with the aforesaid requirements, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year, at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

"Reserve Fund Obligations" means cash, investment securities of any of the type or types permitted under the Ordinance, any "Credit Facility" or any combination thereof. "Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a "Rating Agency" having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a "Rating Agency" having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the bonds and the interest thereon. As used herein, "Rating Agency" means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

Investment of Certain Funds. Money in any Fund established pursuant to the Ordinance or any ordinance authorizing the issuance of Outstanding Bonds, and any Additional Bonds, may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or invested in direct obligations of, including obligations the principal and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Public Funds Investment Act of 1987, Chapter 2256, Texas Government Code, as amended, or any successor law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to expended from any Fund will be available at the proper time or times. Such investments shall be valued each year in terms of current market value as of the last day of the City's fiscal year. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates or participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

ADDITIONAL BONDS…In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds, the Outstanding Bonds and any Additional Bonds then outstanding. The Additional Bonds shall be secured by and payable from a first and superior lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds, the Outstanding Bonds and any Additional Bonds; and the Bonds, the Outstanding Bonds, any then outstanding Additional Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met:

(a) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the Bonds or the Outstanding Bonds:

(b) Each of the special Funds created for the payment and security of the Bonds and the Outstanding Bonds contain the amount of money then required to be on deposit therein;

(c) The City has secured from a Certified Public Accountant a certificate showing that the Net Earnings (definition on following page, paragraph (f)) of the System for either the completed fiscal year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of all bonds, which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for water and wastewater afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify, that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings of the System covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of the Outstanding Bonds after giving effect to the issuance of the Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;

(d) The ordinance authorizing the Additional Bonds requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Bonds to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months from the date of the Additional Bonds;

(e) The Additional Bonds are scheduled to mature only on June 1, and the interest thereon is scheduled to be paid on June 1 and December 1; and

(f) The term "Net Earnings" shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested monies in the special Funds created for the payment and security of obligations payable from the Net Revenues, after deduction of maintenance and operating expenses but not deducting depreciation, debt service payments on the Bonds, the Outstanding Bonds and any Additional Bonds and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting solely from the ownership of the System (grants, meter deposits and gifts) and interest earned on construction funds created from bond proceeds shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings."

COVENANTS BY CITY…The City covenants that so long as any principal or interest pertaining to any of the Bonds, the Outstanding Bonds and any Additional Bonds remains outstanding and unpaid, it will not authorize or issue any further bonds of the City secured by a lien on and pledge of the revenues of the System superior or senior to the pledge and lien created herein for the Bonds, the Outstanding Bonds and any Additional Bonds, or secured by a lien on and pledge of the revenues of the System on a parity with the Bonds, the Outstanding Bonds and any Additional Bonds except in conformity with the provisions of the Ordinance.

The City covenants that the System shall be operated on a fiscal year basis and shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds, the Outstanding Bonds and any Additional Bonds are outstanding, the City agrees to maintain insurance on the System of a kind and in an amount customarily carried by municipal corporations in the State of Texas engaged in a similar type of business.

The City covenants that so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System and its component parts separate and apart from all other records and accounts of the City in accordance with accepted accounting practices prescribed for municipal corporations, and complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, as amended.

For so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding, the City will not sell or encumber the physical properties of the System or any substantial part thereof; provided, however, this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System.

The City covenants that following the close of each fiscal year, it will cause an audit of such books and accounts of the System to be made by an independent firm of Certified Public Accountants which shall include, among other things, a detailed statement of the income and expenditures of the components of the System for such fiscal year; a balance sheet as of the end of such fiscal year; and a detailed statement of the source and disposition of all funds of the System during such fiscal year. Copies of these annual audits shall be immediately furnished, upon written request, to the original purchasers and any subsequent holder of the Bonds, the Outstanding Bonds and any Additional Bonds.

No free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

Remedies in Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in any payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, the holder or holders of any of the Bonds, the Outstanding Bonds or any Additional Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

TAX MATTERS

TAX EXEMPTION… In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the bonds are not "private activity bonds" under the Internal Revenue Code of 1986 as amended (the "Code") and, as such, interest on the Bonds 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 Bonds, 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 Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of 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 and, in addition, will rely on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such includability 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, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds 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 Bonds.

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 upon 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 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 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 Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES…Prospective purchasers 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, taxpayers owning an interest in a FASIT that holds 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 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds 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 Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS…The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds ") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond 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 Bond 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 Bond 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 Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds 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 Bonds 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 Bond 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 Bonds.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS…The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds "). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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 Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond 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 Bonds under the caption "Collateral Tax Consequences" generally applies, 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 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond 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 Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Purchaser has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds 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 page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued 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 Bonds 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 Bond 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 Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds 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 Original Issue Discount Bonds 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 Bonds 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 Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS…The City will provide certain updated financial information and operating data to certain information vendors annually. 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 5 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2009. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by 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 each NRMISR and any SID 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, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78798-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.com ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information related to the Bonds, unless the SEC has withdrawn the interpretive advice stated in its letter to the MAC dated September 7, 2004 and October 3, 2007.

MATERIAL EVENT NOTICES…The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID…The City has agreed to provide the foregoing information only as described above. Prior to July 1, 2009, the information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so. Effective July 1, 2009, all such information must be filed with the MSRB, rather than the current NRMSIRs. The MSRB intends to make the information available to the public without charge through an internet portal as part of an expansion of its Electronic Municipal Market Access

(EMMA) System.

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 holders 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 holders 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 holders 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…The City has previously made continuing disclosure agreements in connection with the issuance of its bonds and obligations. During the last five years the City has been in compliance in all material respects with its prior undertakings.

OTHER INFORMATION

RATINGS… The Bonds and the unenhanced outstanding water and wastewater revenue debt of the City are rated "Aa3" by Moody's, "AA+" by S&P and "AA+" by Fitch. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION…The City is currently involved in an employment lawsuit, *Lubke v. City of Arlington*, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the "Y2K" weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The case was tried to a jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case was appealed and remanded by the 5th Circuit. The case is currently before the trial court on issues of damages and the effect of the plaintiff's failure to disclose the judgment in a bankruptcy he filed during the appeal. Settlement negotiations with the bankruptcy trustee, who now owns the Judgment, were unsuccessful. The case is now styled *Reed v. City of Arlington*. The trial court held that the bankruptcy estate should not be estopped from collecting on the Judgement for the benefit of Lubke's creditors. At the present time, the estimated value of the bankruptcy estate, including debts and costs is about $624,770. The trial court will recalculate the damage award based on offsets for retirement benefits paid that were not permitted at the trial court level. The City believes that the recalculated damage award is $357,000. However, the new attorneys fees award is $692,000. The City strongly believes that judicial estoppel should apply to the bankruptcy trust and has appealed to the 5th Circuit. The profitability of an unfavorable outcome cannot be made at this time but the range of exposure in the event of an unfavorable outcome is now $700,000. Accordingly, no accrual has been made.

The City is currently involved in an American with Disabilities Act discrimination lawsuit (*Frame, et al. v. City of Arlington*), in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City. The City contends that it is in compliance with the ADA. A motion to dismiss on the pleadings was granted. The Plaintiff's appealed to the 5th Circuit and argument was held for April 1, 2009. The court has not yet rendered a decision in this matter. The probability of an unfavorable outcome cannot be determined at this time. If the case were to continue, under the ADA, the plaintiffs are limited to the recovery of attorney fees. However, plaintiffs seek to have the City rebuild its entire sidewalk system. The range of exposure to the City in the event of an unfavorable outcome cannot be determined at this time.

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 "Self Insurance") or insurance coverage, if any, on all such claims will not have a materially adverse effect on the City's financial position, as a whole.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE…The sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds 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 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

LEGAL MATTERS… The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the City and based upon examination of such transcript of proceedings, the approving legal opinion of Vinson & Elkins L.L.P., Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is 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, "PLAN OF FINANCING" (except under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (except under the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "SELECTED PROVISIONS OF THE BOND ORDINANCE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings"), and the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas", "Registration and Qualification of Bonds for Sale" and "Legal Matters" under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., Dallas, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS…Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (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 Bonds 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 Bonds 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 Bonds 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

UNDERWRITING…The Bonds are being purchased by Wells Fargo Brokerage Services, LLC as Senior Managing Underwriter, on behalf of a group of Underwriters listed on the cover of this Official Statement (the "Underwriters"). The purchase contract for the Bonds (the "Purchase Contract") sets forth the obligation of the Underwriters to purchase the Bonds for the purchase price of $14,797,015.30 (representing the principal amount of the Bonds, plus an original issue premium of $1,113,245.70 and less an underwriting discount of $76,230.40) plus interest accrued on the Bonds from the Dated Date to the date of delivery of the Bonds to the Underwriters, and is subject to certain terms and conditions, including the approval of certain legal matters by Bond Counsel. The Purchase Contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers and others at prices different from the public offering prices stated on the inside cover of this Official Statement. The public offering prices may be changed from time to time at the discretion of the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Piper Jaffray & Co., one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission paid to Piper.

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 Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Bonds and the restricted Federal 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 DISCLAIMER…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 obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed 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.

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 this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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 Bond Ordinance authorizing the issuance of the Bonds approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Bonds by the Underwriters

/s/ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

/s/ Karen Barlar
City Secretary
City of Arlington, Texas

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

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Waterworks & Sewer System Refunding & Improvement Revenue Bonds, Series 1997

Original Dated Date	Original Maturity Date	Interest Rates	Amount
6/15/1997	6/1/2010	5.000%	$1,535,000
	6/1/2011 [1]	5.125%	915,000
	6/1/2012 [1]	5.125%	600,000
	6/1/2013 [1]	5.125%	600,000
	6/1/2014 [1]	5.125%	600,000
	6/1/2015 [1]	5.125%	600,000
	6/1/2016 [1]	5.125%	600,000
			$5,450,000

The 2010-2016 maturities will be redeemed prior to original maturity on May 28, 2009 at par.

[1] Represents mandatory sinking fund redemption amounts for the Term Bond maturing June 1, 2026.

Water & Wastewater System Revenue Bonds, Series 1999

Original Dated Date	Original Maturity Date	Interest Rates	Amount
2/1/1999	6/1/2010	4.250%	$400,000
	6/1/2011	4.250%	400,000
	6/1/2012	4.400%	400,000
	6/1/2013	4.500%	400,000
	6/1/2014	4.625%	400,000
	6/1/2015	4.750%	400,000
	6/1/2016	4.750%	400,000
	6/1/2017	4.750%	400,000
	6/1/2018	4.750%	400,000
			$3,600,000

The 2010-2018 maturities will be redeemed prior to original maturity on June 1, 2009 at par.

Water & Wastewater System Revenue Bonds, Series 2001

Original Dated Date	Maturity Date	Interest Rates	Amount
3/1/2001	6/1/2015	5.000%	$1,035,000
	6/1/2016	5.000%	1,035,000
	6/1/2017	5.000%	1,035,000
	6/1/2018	5.000%	1,035,000
	6/1/2019	5.000%	1,035,000
			$5,175,000

The 2015-2019 maturities will be redeemed prior to original maturity on June 1, 2011 at par.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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 and approximately three quarters of a square mile are contained within its extraterritorial jurisdiction.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas 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 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. 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 four 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.

CERTAIN CITY COUNCIL APPOINTEES…The Council appoints the City Attorney who has management, charge, and control of all legal business of the City. He is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is his duty to advise Council concerning the legality of actions by the City and to represent the City in all matters affecting its interest.

The City's Municipal Court Judiciary provides for the adjudication of Class "C" misdemeanor cases, issuance of warrants and the arraignment of prisoners.

The Council appoints the City Auditor who manages the Internal Audit Division which monitors the internal controls and operations of the City and its assets, monitors security of electronic data and responds to management requests for analyses, appraisals and recommendations.

The Council also appoints members to certain boards, commissions, and authorities as it deems necessary to the operation of the City.

PRINCIPAL EXECUTIVE OFFICERS…City Manager – Mr. James Holgersson – with the City since June, 2005, received his bachelor's degree from Augustana College in Illinois and a master's degree in public administration from the University of Arkansas. He is an active member of the International City/County Management Association. Prior to joining the City, he served as a deputy city manager with the City of San Jose, California, and as city manager of the cities of Waco, Texas and Kalamazoo, Michigan. In addition he served as Executive Director of the Rapoport Foundation in Waco.

Deputy City Manager for Economic Development – Mr. Trey Yelverton – with the City since January 1993, most recently as the Director of the Neighborhood Services Department since 2000. He received an undergraduate degree in Political Science - Public Administration from the University of Texas at Arlington, and a M.P.A. from University of North Texas.

Deputy City Manager for Capital Investment – Ms. Fiona Allen, P.E. – with the City since December 1990, most recently as the Director of the Water Utilities Department since 2003. She received her B.S. in Civil Engineering from Texas A&M University and is a Professional Engineer and Registered Sanitarian.

Deputy City Manager for Neighborhood Services – Mr. Gilbert Perales – with the City since January, 2007. Prior to working for the City, Mr. Perales was the assistant city manager of the City of Irving for over 5 years. He received a Bachelors Degree in Art and a Master's Degree in Public Administration from St. Mary's University.

Deputy City Manager for Strategic Support – Mr. Bob Byrd – with the City since 1985, received his B.S. from the U.S. Naval Academy. He has held management positions in Public Works, Community Development, Neighborhood Services, Municipal Court, and

Environmental Services.

Director of Water Utilities – Ms. Julia J. Hunt, P.E. – with the City since September 1984, she received her bachelor's degree in civil engineering from Texas A&M University. She is a licensed professional engineer in Texas. Previously, she was Assistant Director, overseeing operations, and the manager of Water Information Services.

City Attorney – Mr. Jay Doegey – with the City since March 1986, a graduate of Southern Illinois University, he received his law degree from the University of Texas. Prior to joining the City, he was Senior Assistant City Attorney for the City of Corpus Christi, Texas.

Director of Financial and Management Resources – Ms. April Nixon – with the City since November 1992, most recently the Director of Management Resources and Administrative Services since 2005. Ms. Nixon received a Bachelor's Degree in Journalism from the University of Texas at Austin and a Master's of Business Administration from Texas Wesleyan University.

FUNCTIONAL GROUPS

GOVERNMENTAL SERVICES AND FACILITIES…The City provides a full range of municipal services including police and fire, health, parks and recreation, public works, planning, and general administrative services. Water and wastewater services are accounted for in the City's Enterprise Fund. The City leased operation of the landfill to a private company beginning in May 2005.

The City's main municipal facilities include two general administrative buildings and a public safety building. There are 16 fire stations, four geographically distributed police stations, a police training center, a fire training center, one main and five branch libraries, 84 city parks, and four municipal golf courses.

Some of the other major facilities provided by the City include a convention center, five recreational centers, two senior citizen centers, and a municipal airport.

The City provides a comprehensive range of public services characteristic of its position as the most populous city in the Mid-Cities area of the Dallas-Fort Worth Metroplex. Presented in the following pages is a description of selected City agencies and departments contained within each of the four functional groups.

NEIGHBORHOOD SERVICES GROUP…The Deputy City Manager for Neighborhood Services is responsible for the oversight and management of the Police, Fire, Library, Community Services and the Parks and Recreation Departments. The partnering of these departments provides a strong connection between City resources and neighborhoods.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 1999.

The City's Fire Department is responsible for fire prevention, fire suppression and first response emergency medical services. The 414 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Fire Department has responsibility for 9-1-1 dispatch services. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City and will also report to the Deputy City Manager.

The Library Department is responsible for the management and operation of the City's central library and six branch libraries. Circulation exceeds 1.5 million items annually.

The Community Services Department is responsible for providing a communication and service link between the residents of and business owners in the City and all City Departments. The Code Enforcement Division is responsible for enforcing city regulations related to the maintenance, sanitation, rehabilitation and conservation of existing housing. The Health Division is responsible for the inspection of food services establishments, public swimming pools and new septic system installations. In conjunction with Tarrant County, it operates the Public Health Center which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,669 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and the management of the Bob Duncan Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical, social, cultural and environmental needs of the citizens of the City.

ECONOMIC DEVELOPMENT GROUP…The Deputy City Manager for Economic Development is responsible for oversight and management of four departments and three outside organizations. The City functions covered by the Economic Development Group include Economic Development, Community Development and Planning, the Convention Center and Aviation. They also oversee the City contract with the Convention and Visitors Bureau, the Downtown Arlington Management Corporation and the Arlington Chamber of Commerce.

Economic Development is responsible for the airport and expanding its opportunities, downtown development as well as growing neighborhood businesses, and managing special districts.

Community Development and Planning is responsible for maintaining a long-range Comprehensive Plan which optimizes the physical, fiscal and natural resources of the City in its development. The Building Inspection Division enforces City ordinances regarding general construction, zoning, mechanical, electrical and plumbing activities. The planning staff provides coordination services in an effort to effectively facilitate program development and implementation. Additional responsibilities include providing City staff and the general public with current zoning and inventory maps and a wide range of demographic statistics.

The Convention and Event Services Department is responsible for the management of the Arlington Convention Center. The City contracts with the Arlington Convention and Visitors Bureau for the tourism marketing of the City of Arlington.

CAPITAL INVESTMENT GROUP…The Deputy City Manager for Capital Investment is responsible for oversight and management of three departments. The City functions covered by the Capital Investment Group include Environmental Services, the Water Utilities Department, and Public Works and Transportation.

Environmental Services oversees solid waste and fleet services contracts, air and water quality, public health concerns, the natural gas program and stormwater management.

The Water Utilities Department is responsible for assuring a continuous supply of safe high quality drinking water and collection and safe disposal of wastewater. The City's water treatment operations are nationally known and are recognized for their use of advanced technology. Transmission capacity has been designed to anticipate future peak demands well into the century. The department is structured in divisions focusing on Operations, Business Services, and Treatment. The department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

Public Works and Transportation plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. The department is structured in divisions focusing on transportation planning, engineering operations, traffic, signal engineering, streets and storm water drainage. This department is also responsible for facilities maintenance and real estate services.

STRATEGIC SUPPORT GROUP…The Deputy City Manager for Strategic Support is responsible for the oversight and management of five City departments which include Management Resources, Financial and Management Resources, Workforces Services, Information Technology, and Municipal Court.

Financial and Management Resources oversees the financial affairs of the City and ensures the financial integrity of City operations. Department services include accounts payable, accounting, payroll, purchasing, treasury management and maintenance of the City's fixed asset inventory. It also oversees the budget division, and the City Secretary's Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. It is also responsible for improving legislative and lobbying efforts as well as Public Information. It works with news media and issues publications, and implements programs to educate and inform citizens about City policies and programs. It also includes General Services which provides printing, copying, records management, and mailroom services to the organization.

Workforce Services is responsible for planning, developing, and administering the functions of employment, testing, training, and employee relations. It also administers the salary and benefit program and risk management program.

Information Technology has the responsibility for the processing and electronic storage of information used in the daily business of the City. The Geoprocessing Division is responsible for meeting the automated geographic information and mapping needs of the City.

Municipal Court is responsible for collecting court fines, setting trial dockets, and maintaining the Municipal Court records.

ECONOMIC AND DEMOGRAPHIC FACTORS

POPULATION…The 2009 estimated population for the City of Arlington is 371,038. The following table presents population figures for selected years.

PER CAPITA PERSONAL INCOME

	2006	2005	2004	2003
Tarrant County	$36,642	$34,275	$32,735	$31,565
Texas	35,166	32,460	30,732	29,452
United States	36,714	34,471	33,050	31,484

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EDUCATIONAL FACILITIES…Public education is provided principally by the Arlington Independent School District (AISD) and part of the Mansfield Independent School District (MISD). The AISD public schools feature nine high schools, thirteen junior high schools, fifty-two elementary schools, one pre-kindergarten campus, one immigrant education campus, one alternative school and three discipline-management campuses. AISD's professional staff of 4,229 serves a peak enrollment of 62,863 students. MISD has fifteen schools in Arlington, including two high schools, four middle schools and nine elementary schools. These fifteen schools serve approximately 14,112 students.

The University of Texas at Arlington, founded in 1895, has an approximate enrollment of 25,000 students and offers 180 degree programs at the bachelor, master, and doctoral levels. The physical plant, located on a 396 acre campus, includes 107 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. The 193-acre site features a current enrollment of approximately 10,000 students and approximately 750 employees. The college offers Associate degrees in Arts, Applied Sciences, and various Technical certificates.

Summarized below is information concerning the AISD's and MISD's annual peak enrollment and the total percentage changes for the last five fiscal years.

Public School Enrollment

Fiscal Year	AISD Peak Enrollment	MISD Peak Enrollment	Percentage Change
2005	62,531	12,006	3.10
2006	62,267	13,733	1.96
2007	63,397	15,085	3.27
2008	62,157	14,456	(2.38)
2009	62,863	14,112	0.47

Source: AISD and MISD

EMPLOYMENT

Arlington Major Employers

Employer	Type of Business	Number of Employees
Arlington Independent School District	Public Education	8,000
University of Texas at Arlington	Higher Education	5,700
Six Flags over Texas	Amusement Park	3,200
The Parks at Arlington (Mall)	Retail	3,000
General Motors	Automobile Assembly	3,000
Chase Bank	Banking Services	1,900
Texas Rangers Baseball Club	Sports Entertainment	1,800
City of Arlington	Municipality	1,700
Americredit	Finance	1,300
Arlington Memorial Hospital	Medical Center	1,300
Wal-Mart	Retail	1,200
Providian Financial	Financial Services	1,200
National Semiconductor	Semiconductor Manufacturer	1,100
Total		34,400

(1) Includes part-time and peak seasonal employees.

Source: Arlington Chamber of Commerce. This information will continue to be disclosed as long as it is available from the Chamber of Commerce or other reliable sources.

As illustrated in the table below, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2008, the City's unemployment rate averaged 4.4 percent compared to the U.S. rate of 5.8 percent and the Texas rate, which was 4.8 percent.

Unemployment Rate
Annual Average Rates
2003 to 2008

	2008	2007	2006	2005	2004	2003
Arlington	4.4%	4.2%	4.8%	5.1%	5.8%	6.6%
Texas	4.8	4.3	4.9	5.4	6.0	6.7
United States	5.8	4.6	4.6	5.2	5.7	5.8

Source: U.S. Bureau of Labor Statistics.

FINANCIAL INSTITUTIONS…There are fifty-five commercial banks, state banks and savings and loan associations in the City.

BUILDING PERMITS…During the FY 2008 the City issued 5,909 building permits with a total value of $329,349,000. Presented below is a table covering building permit activity for the last three fiscal years:

	2008		2007		2006	
	Permits	Value (000's)	Permits	Value (000's)	Permits	Value (000's)
New Single Family	1,838	$ 91,597	829	$ 126,286	1,115	$ 176,935
New Multifamily	11	35,620	3	19,029	35	11,601
New Commercial	796	197,338	127	55,483	77	161,884
New Institutional	-	-	-	-	6	76,073
Other (Additions, etc. [1])	3,264	4,793	2,276	67,963	2,953	100,402
Grand Total	5,909	329,348	3,235	268,761	4,186	526,895

[1] Number of permits includes: Signs permits, Certificates of occupancy, and Fire permits issued. Only sign permits have an associated declared valuation within this classification.

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Source: City Building Inspections Division.

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 statewide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714.

Benefits depend upon the 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. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to 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.

Members can retire at ages 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, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/08):

Deposit Rate:	7%
Matching Ratio: (City to Employee)	2 to 1
A member is vested after:	5 years

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the 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 of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2008, the City's annual pension cost of $19,486,546 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/2006	$14,512,396	100%	-
9/30/2007	15,164,348	100%	-
9/30/2008	19,486,546	100%	-

As of December 31, 2007, the City's plan was 61.3% funded. The actuarial accrued liability for benefits under the plan was $569,403,626 and the actuarial value of assets was $348,784,857, resulting in an unfunded actuarial accrued liability of $220,618,769. The covered payroll was $130,957,976, and the ratio of the payroll (annual payroll of active employees covered by the plan) was $130,957,976, and the ratio of unfunded actuarial accrued liability to the covered payroll was 168.5%.

In December 2007, the TMRS Board of Trustees approved changes in the actuarial assumptions and funding methodology for all TMRS plans. If the changes in actuarial funding method and assumptions had not been adopted by TMRS for the 2007 valuation, the City's unfunded actuarial accrued liability would have been $138,169,762 and the funded ratio would have been 71.6%.

Another factor that may affect the City's contribution rates in the future is legislation that has been filed in the 2009 session of the Texas Legislature. One such piece of legislation is House Bill 360, which makes certain changes to Chapter 855 of the Texas Government Code relating to the administration of the TMRS. Without this legislation, the City's contribution rates may increase when future actuarial valuations are performed.

For more detailed information concerning the City's pension and employee benefit plans, including the TMRS Plan, the Thrift Savings Plan, the Part-Time Deferred Income Trust and the IRC Deferred Compensation Plan, see Appendix B, "Audited Basic Financial Statements of the City of Arlington Year Ended September 30, 2008" - Note III.6., pages 51-54.

OTHER POST-EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board released the Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-Employment Benefits ("OPEB"), in June 2004. The City added the required disclosure beginning with fiscal year 2008. GASB 45 sets forth standards for the measurement, recognition and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer's financial statements.

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.

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 long term disability 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% of covered payroll. For the year ended September 30, 2008, the City contributed $364,000 to the plan. Administrative costs of

DIP are financed through investment earnings.

As of July 1, 2007, the most recent actuarial valuation date, the plan was 13.3% funded. The actuarial accrued liability for benefits was $2,633,177, and the actuarial value of assets was $349,107, resulting in an unfunded actuarial accrued liability of $2,284,070. The covered payroll (annual payroll of active employees covered by the plan) was $105,480,234, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.2%.

RETIREE HEALTH INSURANCE…The City 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, 2007, 489 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.

As of January 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $101.8 million, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $101.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $138 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 73.7%.

SUPPLEMENTAL DEATH BENEFITS PLAN…The City contributes to the Supplemental Death Benefit Fund ("SDBF"), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the TMRS. This is a separate trust administered by the TMRS Board of Trustees. SDBF provides a death benefit of $7,500 for retirees.

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 0.22% 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, 2007, 2006, and 2005, were $282,863, $262,378, and $251,396 respectively, which equaled the required contributions each year.
For more detailed information concerning all of the other post-employment benefits provided by the City, see Appendix B, "Audited Basic Financial Statements of the City of Arlington Year Ended September 30, 2008" - Note III.7., pages 55-60.

SELF INSURANCE

As of November 1, 1986, the City of Arlington became fully self-insured for General, Auto, Public Officials, and Law Enforcement Liability coverages. The self-insurance plan provides for $1 million per occurrence coverage with a $3 million annual aggregate loss limit. In the absence of commercial liability insurance at reasonable cost, alternative measures for funding liability claims expense had to be developed. Arlington officials created a fully funded self-insurance program by issuing taxable municipal obligations. An actuarial study performed by the Wyatt Company, Dallas, Texas, determined that the City of Arlington would need $9.9 million to cover statistically predictable liability losses incurred between November 1, 1986, and November 1, 1996. Obligations were issued in the principal amount of $9,000,000 and the City contributed $1,000,000 from its General Fund. On January 12, 1999, the City issued $7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue were used to recapitalize the City's self-insurance program. The annual actuarial study in May 1999 estimated that the $7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004. Subsequent actuarial studies and actual fund performance allowed continuation through September 30, 2006. As of September 30, 2008, total current assets less both current and non-current claims payable, was $3,654,878. Beginning in fiscal year 2008, funding for the self-insurance plan has been provided by annual transfers from budgeted operating funds.

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APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF ARLINGTON YEAR ENDED SEPTEMBER 30, 2008

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CITY OF ARLINGTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Arlington, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the City of Arlington, Texas, or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 7.92% and 0.68%, respectively, of total discrete component unit assets as of September 30, 2008, and total program revenues constituting 42.19% and 6.88%, respectively, of total discrete component unit program revenues for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Authority of the City of Arlington, Texas, and the Arlington Convention and Visitors Bureau, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Arlington, Texas, as of September 30, 2008, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

February 27, 2009

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

SEPTEMBER 30, 2008

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, 2008. It should be read in conjunction with the accompanying letter of transmittal and financial statements.

FINANCIAL HIGHLIGHTS

- City's net assets of governmental activities **increased** by $124M (16%) this year, primarily because of an increase in funding construction in progress (CIP) of $310M. The increase in CIP is attributable to the ongoing construction of the Dallas Cowboys Complex Development Project (Cowboys Project). This year, the City recorded an increase in construction costs of $280M, which includes $142M in contributions from the Cowboys Stadium, L.P.

- The City's **increase** in total net assets of $147M for the year was $40M lower than the increase last year. This variance is primarily attributable to a $23M decline in gas lease revenues plus a $9M decrease in interest income.

- The City's governmental funds reported combined ending fund balances of $232M, a **decrease** of $84M from the prior year. The majority of this decrease is due to the Stadium Venue Fund's capital outlay (net of the Cowboys Stadium, L.P. contribution) of $139M less a debt issuance in the Streets Capital Project Fund of $44M.

- The 2008 General Fund unreserved fund balance was $49M and unreserved and undesignated fund balance was $.5M. In 2007 the comparable balances were $53M and $5.6M. Fund balance decreased due to the use of one-time funding for various projects.

- Total debt of $730M **increased** $82M during the year. Debt issues in 2008 includes $16M short-term Commercial Paper, $58M General Obligation Bonds which includes $8M of refunded commercial paper, $13M Combination Tax and Revenue Certificates of Obligation, $34M Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, and $2M Water and Wastewater System Revenue. Bond principal payments total $34M on existing obligations. Debt is allocated 87% for general government, with the remaining 13% to water and wastewater activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- **The Statement of Net Assets** presents information on all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. The Statement of Net Assets combines governmental funds' current financial resources (short-term spendable resources) with additional accruals, capital assets and long-term obligations. Other non-financial factors should also be taken into consideration to assess the overall health or financial condition of the City, such as changes in the City's property tax base and the condition of the City's infrastructure.

- **The Statement of Activities** shows how the net assets changed during the most recent year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

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

- Governmental Activities **–** Most of the City's basic services are reported here, including police, fire, libraries, planning and development, public works and transportation, parks and recreation, and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.

- 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.

- Component Units – The City includes one blended component unit in its report – Arlington Property Finance Authority, Inc. The City includes five discretely presented component units in its report – Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Convention and Visitors Bureau, Arlington Housing Finance Corporation, Arlington Tomorrow Foundation, and Arlington Industrial Corporation. 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-five individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, Streets Capital Projects Fund and the Stadium Venue Fund, all of which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

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

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

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

NOTES TO THE FINANCIAL STATEMENTS AND OTHER INFORMATION

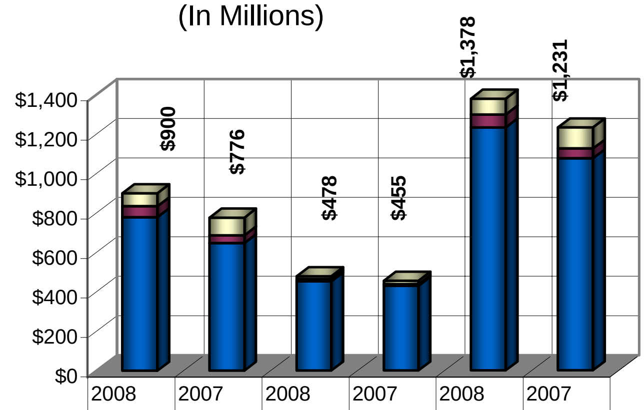
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning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

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $1.4B as of September 30, 2008. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are $478M million. This analysis focuses on the net assets and changes in general revenues and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (89%) 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.

Summary of Net Assets
(In Millions)



	Governmental Activities 2008	Governmental Activities 2007	Business-type Activities 2008	Business-type Activities 2007	Total Primary Government 2008	Total Primary Government 2007
Unrestricted	66	90	15	17	81	107
Restricted	55	40	10	9	65	49
Investment in Capital	779	646	453	429	1,232	1,075

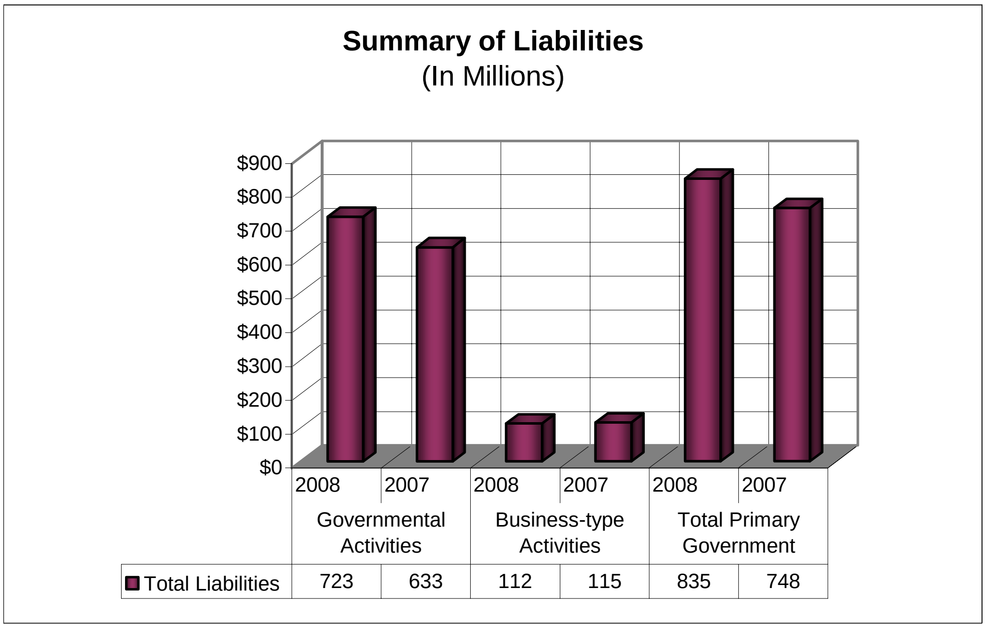


Table 1
Summary of Net Assets
(Amounts Expressed in Millions)

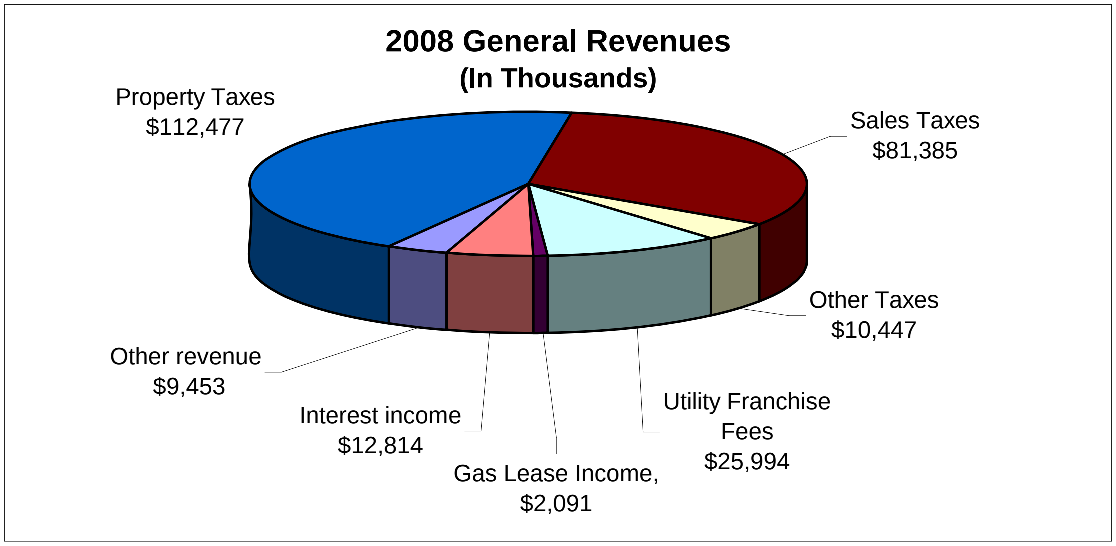
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Current and other assets	$ 332	$ 415	$ 94	$ 101	$ 426	$ 516
Capital assets	1,291	994	496	469	1,787	1,463
Total assets	1,623	1,409	590	570	2,213	1,979
Long-term liabilities	613	547	84	92	697	639
Other liabilities	110	86	28	23	138	109
Total liabilities	723	633	112	115	835	748
Net assets:						
Invested in capital assets, net of related debt	779	646	453	429	1,232	1,075
Restricted	55	40	10	9	65	49
Unrestricted	66	90	15	17	81	107
Total net assets	$ 900	$ 776	$ 478	$ 455	$ 1,378	$ 1,231

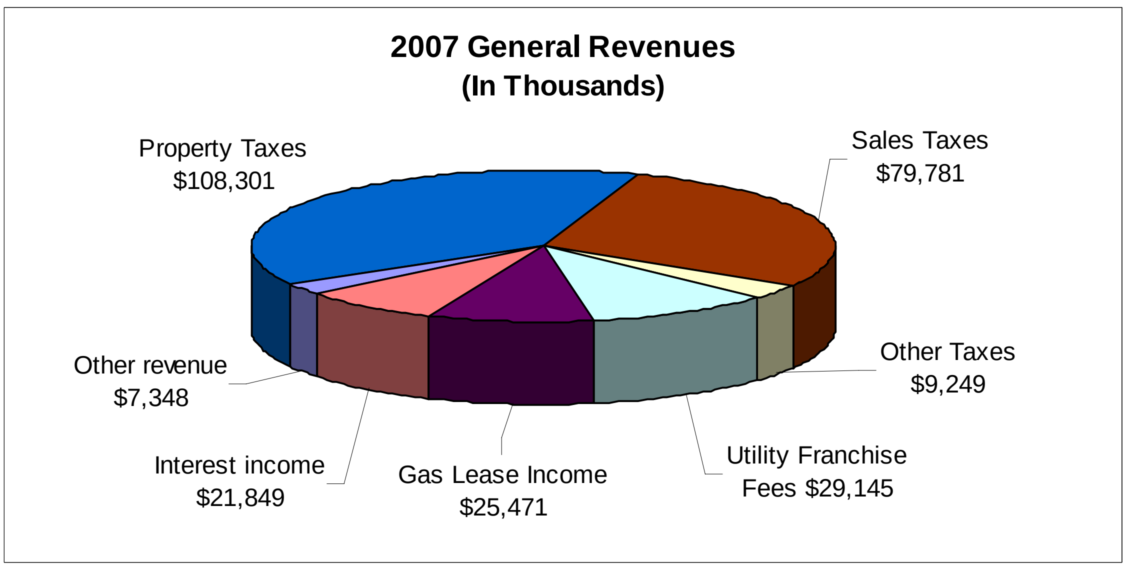
Governmental Activities

The City's general revenues decreased 9% ($26M) compared to the prior year. The primary reason for this decrease is a $23M decrease in revenues from natural gas leases. For fiscal year 2008, the number of new gas leases on City property remained steady compared to fiscal year 2007 (eight new leases in 2008 vs. seven in 2007), but the overall upfront bonuses for those leases declined. Furthermore, in 2008, 90% of all gas lease bonus proceeds were deposited with the Arlington Tomorrow Foundation, an endowment fund created by the City for the long-term benefit of the Arlington Community.

Property tax revenue increased $4.2M due to increased property valuations and the addition of new property throughout the City. The assessed value of the property in the

City increased by $766M or 4.8% while the property tax rate of $0.6480 per $100 assessed valuation remained the same as in 2007.





Governmental and Business-type activities increased the City's net assets by $147 in 2008 and $187M in 2007. The key elements of these increases are:

Changes in Net Assets
(Amounts Expressed in Thousands)

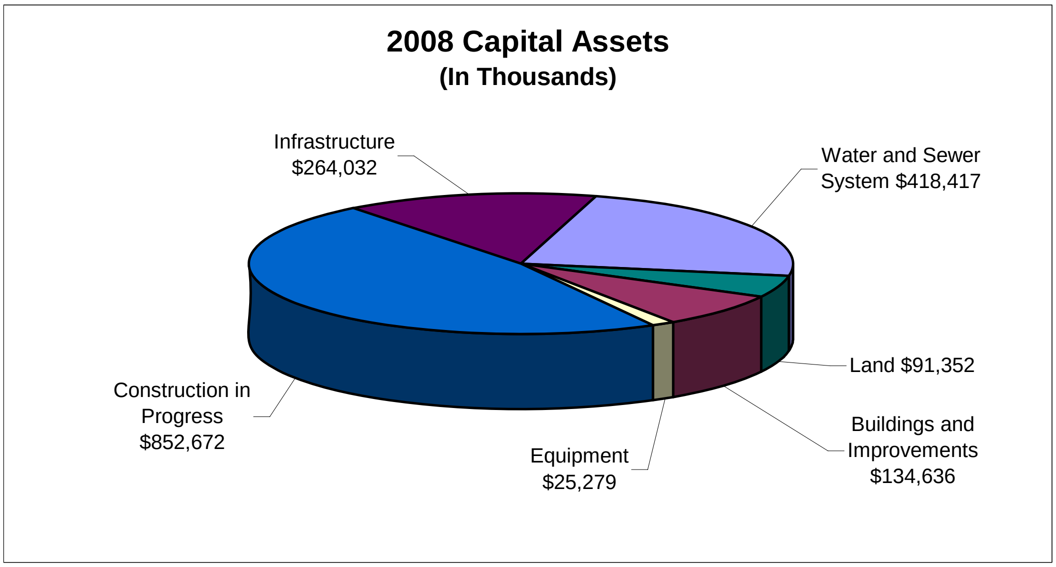
	Governmental Activities		**Business-type Activities**		**Total**	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	$45,232	$39,320	$ 102,324	$ 88,786	$ 147,556	$ 128,106
Operating grants and contributions	20,787	14,102	-	-	20,787	14,102
Capital grants and contributions	145,029	121,720	2,622	3,600	147,651	125,320
General Revenues:						
Taxes	204,309	197,331	-	-	204,309	197,331
Utility franchise fees	25,994	29,145	-	-	25,994	29,145
Gas Lease Income	2,091	25,471	-	-	2,091	25,471
Interest Income	12,814	21,849	2,196	1,685	15,010	23,534
Other	9,453	7,348	(49)	257	9,404	7,605
Total revenues	465,709	456,286	107,093	94,328	572,802	550,614
Expenses:						
General government	43,788	34,120	-	-	43,788	34,120
Public safety	123,587	113,343	-	-	123,587	113,343
Public works	84,115	73,161	-	-	84,115	73,161
Public health	1,920	1,735	-	-	1,920	1,735
Parks and recreation	28,027	26,826	-	-	28,027	26,826
Public welfare	39,282	11,136	-	-	39,282	11,136
Convention and event services	6,533	5,628	-	-	6,533	5,628
Interest and fiscal charges	26,624	24,581	-	-	26,624	24,581
Water and sewer	-	-	71,929	72,945	71,929	72,945
Total expenses	353,876	290,530	71,929	72,945	425,805	363,475
Increase in net assets before transfers	111,833	165,756	35,164	21,383	146,997	187,139
Transfers	12,462	6,520	(12,462)	(6,520)	-	-
Increase in net assets	124,295	172,276	22,702	14,863	146,997	187,139
Net Assets, October 1,	775,698	603,422	455,107	440,244	1,230,805	1,043,666
Net Assets, September 30	$ 899,993	$ 775,698	$ 477,809	$ 455,107	$ 1,377,802	$ 1,230,805

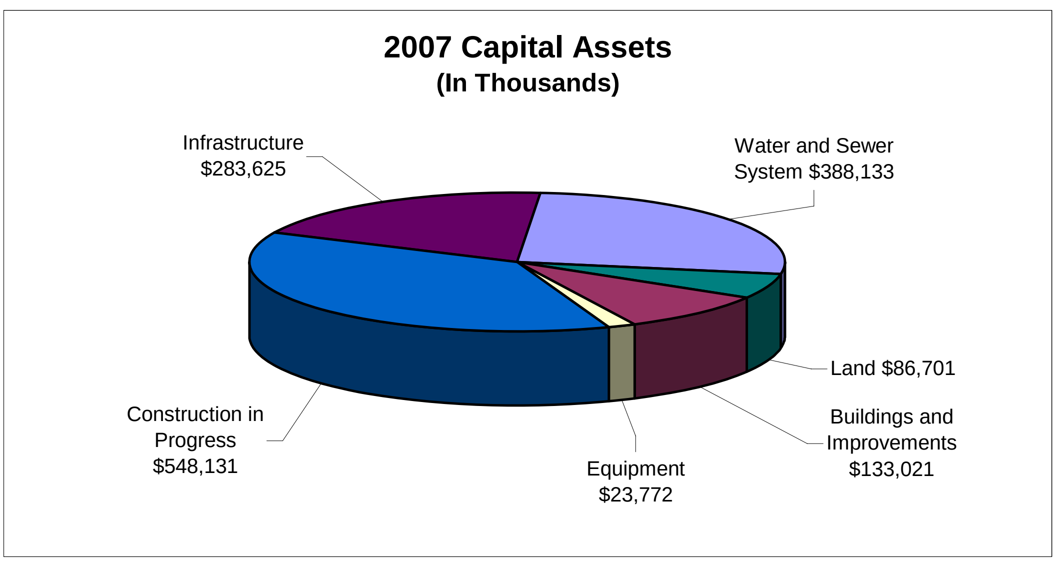
Expense increases in public safety were due primarily to an increase in salary and benefits of $8M caused by general pay increases along with the hiring 13 additional police officers. Expense increases in public welfare were primarily the result of a contribution of gas lease bonus proceeds to the Arlington Tomorrow Foundation. Revenue and expense variances in business activities (Water and Wastewater) were due to a dryer than normal summer.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2008, the City had $1.8B invested in a broad range of capital assets. This amount represents a net increase (including additions and deductions) of $323M or 22% over the prior fiscal year. The $323M increase combines a $296M increase in Governmental Activities with a $27M increase in Business-type Activities. The increase in Governmental Activities is mostly due to $280M in capital outlay related to the Cowboys Stadium Complex Project. The increase in Business-type Activities is due to increased capital outlays for the water and sewer system. Footnote 5 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.



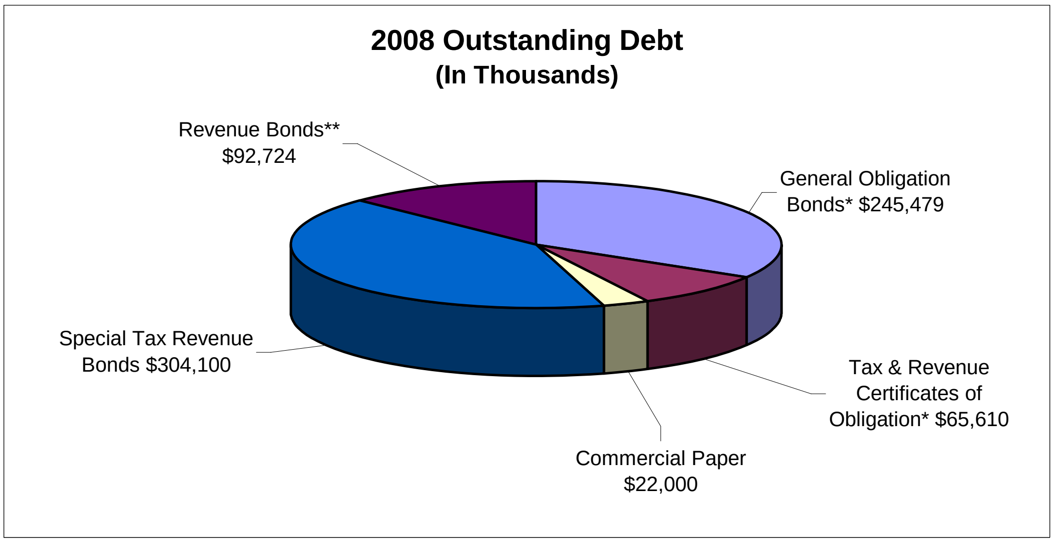


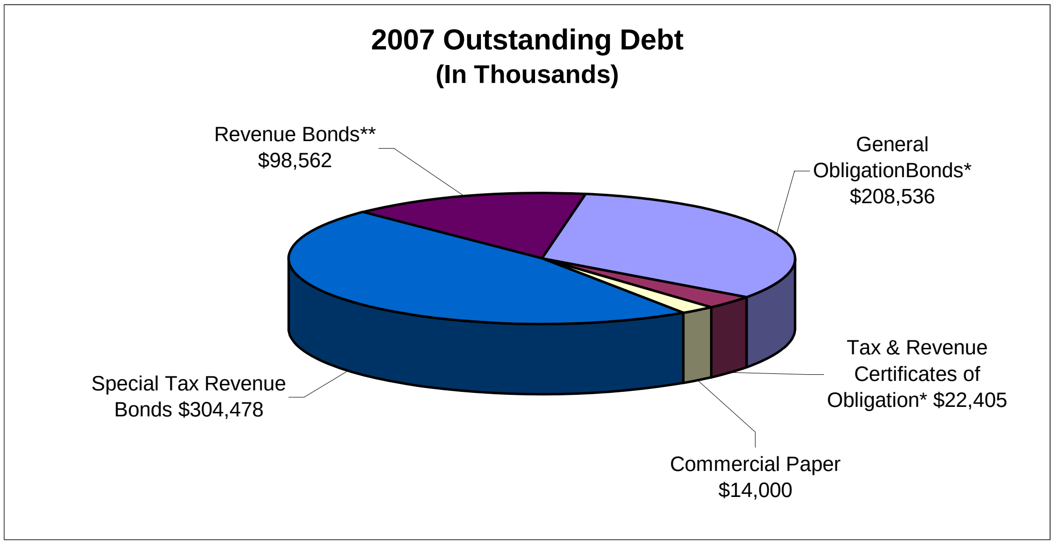
Major capital asset additions during the fiscal year, other than the Cowboys Project include the following:

- Private developer capital contributions of $3M to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments
- Water and sewer system capital improvements and expansion totaling $40M
- A variety of storm drainage and street construction projects with capital outlay totaling $29M
- Various capital outlays totaling $8M for improvement of the City's parks and recreation facilities
- Various capital outlays of $8M for police and fire public safety improvements

Debt

At year-end, the City had $730M in debt, an increase of $82M from 2007





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

During the current fiscal year, the City issued $58M General Obligation Bonds, which includes $8M of refunded commercial paper, $13M in Certificates of Obligation, and $34M in Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation. The City also issued $2M in Water and Wastewater System revenue bonds for the purpose of improving and extending the water and wastewater system. Additionally, the City issued $16M in short term commercial paper for interim funding of capital projects. Footnote 8 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

In 2008, because of its strong financial position, the City was upgraded from an AA to an AA+ rating by Standard and Poor's Corporation on its tax supported debt. The City maintained its AA rating from Fitch, Inc. and its Aa2 rating from Moodys Investor Services The City also has an AA rating from Standard and Poor's Corporation, an Aa3 rating from Moodys Investor Service and an AA+ from Fitch, Inc. on its outstanding water and wastewater revenue bonds. The ratings on the Cowboys Complex Special Obligations are rated A2 by Moody's and AA by Standard and Poor's.

General bonded debt per capita went from 665 in 2007 to 895 in 2008. The reasons for this increase are:

- The 2007 Permanent Improvement Bonds and Certificates of Obligation totaling $25M did not close until early 2008

- The 2008 Permanent Improvement Bonds and Certificates of Obligation totaling $46M closed in mid 2008

- The 2008 $34M Certificates of Obligation backed by incremental revenues from the Entertainment District (TIRZ 5) were issued in mid 2008

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 2%.

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 $300,000 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. Claim liability was $8M in 2008 compared to $10M in 2007.

DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT

The Stadium Complex is on schedule to open in June 2009, with the 2009 being the inaugural season played in Arlington.

In February of 2005, the City, as landlord, and the Cowboys Stadium, L.P., as tenant, entered into a funding and closing agreement for the Dallas Cowboys Complex Development Project. Pursuant to the agreement, the City will pay half the cost, up to $325M, to build the Complex. In July of 2005, the City issued $298M Dallas Cowboy Complex Special Obligations, pledging one-half cent sales tax, two percent hotel occupancy tax and five percent car rental tax. 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, after the new stadium opens, 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, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the tenant capped at $500,000 per year.

In July of 2006, $148M Dallas Cowboy Complex Admissions and Parking Tax Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Cowboys Complex, with security provided by a Guaranty Agreement from The Cowboys Stadium L.P. The proceeds of the bond sale, along with interest earnings, will provide 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 after the stadium opens. If the lease renewal options are exercised, the Cowboys' obligation to stay in Arlington is extended for the renewal term.

THE CITY'S FUNDS

The governmental funds of the City reported a combined fund balance of $232M. The balance includes a decrease in fund balance of $4M in the City's General Fund. This decrease is primarily attributable to the use of $5M in one-time funding for storm water capital projects, information technology projects and a one percent one-time pay increase for City Staff. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of $50M is $16M higher from last year's fund balance of $34M attributable to tax revenue exceeding debt service payments.

- The City recorded a contribution for $142M from the Cowboys Stadium, L.P. and expended $280M for the Cowboys Stadium Complex Project, contributing to a net decrease in fund balance of $136M in the Stadium Venue Fund. This fund was created to account for the construction for the Cowboys Stadium Complex Project and has an ending fund balance of $8M.

- The City spent $24M in capital outlay in the Street Capital Projects fund, down $4M from last year. The decrease is due to lower spending on existing street projects.

- The City's water and sewer fund net assets of $478M increased by $23M over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $33M.

GENERAL FUND BUDGET HIGHLIGHTS

There was $2M in General Fund budget amendments in 2008. The additional budgeted expenditures were $326,000 to partially fund thirteen additional police officers, $56,000 for the cost of one fire inspector, $165,000 for cost of elections, $800,000 for City Hall remodeling costs, $56,000 for the cost of one construction specialist, and $525,000 for three full time employees for the public works department.

Actual expenditures on a budgetary basis of $197M equaled budgeted expenditures of $197M.

Actual revenues on a budgetary basis were $195M, compared to the budget amount of $193M. The $2M positive variance is primarily due to an increase in the utility franchise fees.

ECONOMIC FACTORS AND FISCAL YEAR 2009

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for the business-type activities. The City is seeing a mixed future revenue picture and continues an ongoing diligent examination of expenditures. This combination supports an environment of guarded watchfulness for fiscal 2009. The City is experiencing slight positive economic growth. Assessed property tax values continue to grow, but at a slower rate than previous years. Sales tax revenues had stabilized but are showing weakening trends in early 2009.

In 2009, the City continues to face short-term budgetary challenges and has made an effort to identify areas where resources can be reallocated, not added. The City's total General Fund revenues for 2009 are budgeted at $199M, up 3.1% over 2008, while total General Fund expenditures are $198M up 3.2% for the year

The General Fund's largest single revenue source is property taxes. This revenue represents 40% of the General Fund budget. The property tax rate for 2009 is $0.6480 per $100 valuation, unchanged since 2004. The tax rate is allocated 69% for General Fund activities, with the remaining 31% for debt service.

The General Fund property tax revenue for 2009 is estimated to be $80M up $2M or 2% compared to last year. The City's portion of the sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is dedicated to the Street Maintenance Fund, and one-half cent provides for the debt service for the Cowboy Project debt. Sales tax revenue for the General Fund for fiscal year 2009 is estimated at $48M, up $2M or 4% over last year.

The largest revenue sources for the Water and Sewer Fund is water sales and wastewater treatment budgeted at $102M. The City maintains a rate structure designed to ensure that each category of service is self supporting.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's fiscal accountability. If you have questions about this report or need additional financial information, contact Controller Sherry Wright (sherry.wright@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 Disclosure USA, which keeps the Arlington CAFR on file. Additionally, the CAFR can be found on the City's website at http://www.ci.arlington.tx.us.

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 285,503	$ 12,231	$ 297,734	$ 55,103
Investments	-	-	-	17,033
Receivables (net of allowance for uncollectibles):				
Taxes	4,728	-	4,728	-
Sales taxes	14,136	-	14,136	-
Grants	-	-	-	136
Leases	-	-	-	17,829
Trade accounts	146	6,765	6,911	-
Franchise fees	6,404	-	6,404	-
Unbilled trade accounts	-	7,117	7,117	-
Special assessments	192	-	192	-
Accrued interest	2,333	-	2,333	34
Settlement agreement	-	-	-	10,759
Code enforcement	1,184	-	1,184	-
Other	3,358	49	3,407	190
Internal balances	1	(1)	-	-
Due from other governments	3,148	-	3,148	-
Deferred charge - issuance costs	4,275	-	4,275	-
Inventory of supplies	907	496	1,403	3
Prepaid expenses	2	-	2	11
Restricted assets-				
Bond contingency-				
Investments	-	11,087	11,087	-
Accrued interest receivable	-	119	119	-
Capital construction-				
Investments	-	51,310	51,310	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	4,880	4,880	-
Investment-				
Closure/Post-closure trust fund	5,645	-	5,645	-
Capital Assets-				
Land	84,922	6,430	91,352	-
Buildings and improvements	212,175	2,833	215,008	2,739
Water and sewer system	-	601,688	601,688	-
Machinery and equipment	68,996	10,437	79,433	1,478
Infrastructure	792,661	-	792,661	-
Construction in progress	784,129	68,543	852,672	-
Accumulated depreciation	(652,194)	(194,232)	(846,426)	(2,333)
Total Assets	$ 1,622,651	$ 589,756	$ 2,212,407	$ 102,982

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, 2008
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Accounts payable and accrued liabilities	$ 20,655	$ 4,965	$ 25,620	$ 1,147
Retainage payable	2,587	-	2,587	-
Accrued interest	2,508	-	2,508	-
Unearned revenue	10,530	-	10,530	10,687
Commercial paper	22,000	-	22,000	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	5,053	5,053	-
Retainage payable	-	1,075	1,075	-
Accrued interest	-	1,334	1,334	-
Meter deposits	-	4,880	4,880	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	4,740	-	4,740	-
Sales tax payable	149	-	149	74
General obligation debt	25,230	-	25,230	-
Special tax revenue debt	19,411	-	19,411	-
Accrued compensated absences	1,572	137	1,709	-
Capital lease obligation	665	-	665	-
Bonds payable	-	-	-	17,180
Revenue bonds	-	10,090	10,090	-
Due in more than one year:				
Arbitrage rebate	183	-	183	-
Estimated claims payable	3,562	-	3,562	-
Sales tax payable	485	-	485	239
Net other post-employment benefit obligation	4,772	-	4,772	-
General obligation and certificates of obligation debt	285,859	-	285,859	-
Special tax revenue debt	284,689	-	284,689	-
Landfill closure accrued liabilities	5,645	-	5,645	-
Accrued compensated absences	26,591	1,779	28,370	-
Capital lease obligation	825	-	825	-
Revenue bonds	-	82,634	82,634	-
Total Liabilities	722,658	111,947	834,605	29,327
NET ASSETS				
Invested in capital assets, net of related debt	778,516	453,210	1,231,726	1,867
Restricted for debt service	50,274	9,753	60,027	16,061
Restricted for use of impact fees	5,307	-	5,307	-
Restricted for endowments	-	-	-	36,765
Unrestricted	65,896	14,846	80,742	18,962
Total Net Assets	$ 899,993	$ 477,809	$ 1,377,802	$ 73,655

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General government	$ 43,788	$ 10,528	$ 4,745	$ 128
Public safety	123,587	13,998	4,164	-
Public works	84,115	5,898	2,695	1,647
Public health	1,920	2,692	-	-
Parks and recreation	28,027	9,529	21	143,254
Public welfare	39,282	-	9,162	-
Convention and event services	6,533	2,587	-	-
Interest and fiscal charges	26,624	-	-	-
Total Governmental Activities	353,876	45,232	20,787	145,029
Business-Type Activities:				
Water and sewer	71,929	102,324	-	2,622
Total Business-Type Activities	71,929	102,324	-	2,622
Total Primary Government	$ 425,805	$ 147,556	$ 20,787	$ 147,651
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 2,983	$ 2,520	$ -	$ -
Arlington Housing Authority	26,738	-	23,089	-
Arlington Convention and Visitors Bureau	3,371	3,488	278	-
Arlington Tomorrow Foundation	1,207	-	-	25,341
Arlington Housing Finance Authority	51	-	10	-
Total Component Units	$ 34,350	$ 6,008	$ 23,377	$ 25,341

General Revenues:
- Property taxes
- Sales taxes
- Criminal justice tax
- State liquor tax
- Bingo tax
- TIF/TIRZ tax
- Occupancy tax
- Franchise fees based on gross receipts
- Gas lease and royalties
- Interest
- Net increase (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
$ (28,387)	$ -	$ (28,387)	$ -
(105,425)	-	(105,425)	-
(73,875)	-	(73,875)	-
772	-	772	-
124,777	-	124,777	-
(30,120)	-	(30,120)	-
(3,946)	-	(3,946)	-
(26,624)	-	(26,624)	-
(142,828)	-	(142,828)	-
-	33,017	33,017	-
-	33,017	33,017	-
$ (142,828)	$ 33,017	$ (109,811)	$ -
$ -	$ -	$ -	$ (463)
-	-	-	(3,649)
-	-	-	395
-	-	-	24,134
-	-	-	(41)
$ -	$ -	$ -	$ 20,376
112,477	-	112,477	-
81,385	-	81,385	-
354	-	354	-
1,005	-	1,005	-
105	-	105	-
2,074	-	2,074	-
6,909	-	6,909	-
25,994	-	25,994	-
2,091	-	2,091	11,044
12,814	2,196	15,010	3,729
182	(49)	133	94
9,271	-	9,271	291
12,462	(12,462)	-	-
267,123	(10,315)	256,808	15,158
124,295	22,702	146,997	35,534
775,698	455,107	1,230,805	38,121
$ 899,993	$ 477,809	$ 1,377,802	$ 73,655

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Street Capital Projects
ASSETS				
Cash and cash equivalents	$ 51,687	$ 46,288	$ 8,077	$ 47,091
Closure/Post-closure restricted cash	5,645	-	-	-
Receivables (net of allowance for uncollectibles)				
Taxes	3,006	425	-	-
Sales taxes	8,061	4,050	-	-
Franchise fees	6,404	-	-	-
Special assessments	-	-	-	192
Accrued interest	2,165	68	25	-
Other	2,676	172	-	-
Due from other funds	2,334	-	-	-
Due from other governments	-	-	-	-
Inventory of supplies, at cost	600	-	-	-
Prepaid expenditures	2	-	-	-
Total Assets	$ 82,580	$ 51,003	$ 8,102	$ 47,283
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ 8,789	$ 729	$ 332	$ 2,774
Retainage payable	14	-	-	936
Due to other funds	-	-	-	-
Deferred revenue-				
Taxes	2,679	-	-	-
Closure/Post-closure trust fund	5,645	-	-	-
Landfill	7,545	-	-	-
Gas lease	-	-	-	-
Other	1,719	-	-	192
Commercial paper	-	-	-	17,000
Total Liabilities	26,391	729	332	20,902
Fund Balances				
Reserved for encumbrances	6,074	-	3,853	24,797
Reserved for debt service	-	50,274	-	-
Reserved for inventory	600	-	-	-
Reserved for prepaids	2	-	-	-
Reserved for capital projects	-	-	3,917	1,584
Reserved for street maintenance	-	-	-	-
Reserved for utility rate case	500	-	-	-
Reserved for court technology	-	-	-	-
Reserved for juvenile case manager	-	-	-	-
Unreserved-				
General fund				
Designated for working capital	16,512	-	-	-
Designated for subsequent years' expenditures	5,944	-	-	-
Designated for arbitrage	288	-	-	-
Designated for compensated absences	1,556	-	-	-
Designated for other post employment benefits	1,718	-	-	-
Designated for future initiatives	21,487	-	-	-
Designated for infrastructure	1,000	-	-	-
Undesignated	508	-	-	-
Special revenue funds				
Designated for working capital	-	-	-	-
Designated for hotel feasibility	-	-	-	-
Designated for capital maintenance	-	-	-	-
Designated for neighborhood grants	-	-	-	-
Designated for innovation/venture	-	-	-	-
Designated for reimbursement	-	-	-	-
Undesignated	-	-	-	-
Total Fund Balances	56,189	50,274	7,770	26,381
Total Liabilities and Fund Balances	$ 82,580	$ 51,003	$ 8,102	$ 47,283

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

Other Nonmajor Funds	Total Governmental Funds
$ 103,930	$ 257,073
-	5,645
1,297	4,728
2,025	14,136
-	6,404
-	192
-	2,258
1,694	4,542
-	2,334
3,148	3,148
217	817
-	2
$ 112,311	$ 301,279
$ 7,506	$ 20,130
1,637	2,587
2,334	2,334
-	2,679
-	5,645
-	7,545
1,187	1,187
2,935	4,846
5,000	22,000
20,599	68,953
20,261	54,985
-	50,274
217	817
-	2
48,451	53,952
6,382	6,382
-	500
83	83
150	150
-	16,512
-	5,944
-	288
-	1,556
-	1,718
-	21,487
-	1,000
-	508
2,045	2,045
400	400
461	461
455	455
2,182	2,182
1,425	1,425
9,200	9,200
91,712	232,326
$ 112,311	$ 301,279

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CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet			$ 232,326
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 $12,801 recorded in the internal service funds).			1,277,888
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Deferred & Unearned	Unearned	
Taxes	$ 2,679	$ -	
Closure/Post-closure	5,645	-	
Landfill	7,545	7,545	
Gas lease	1,187	1,187	
Grant revenue	2,394	1,798	
Other	2,452	-	
	21,902	10,530	11,372
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.			31,749
Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds (excluding $9,269 recorded in the internal service funds).			
Bonds payable		$(606,520)	
Less: Deferred charge for issuance costs (to be amortized as interest expense)		4,275	
Premium general obligation debt		(10,600)	
Deferred loss refunding		1,931	
Accrued interest payable		(2,508)	
Arbitrage rebate		(183)	
Sales tax payable		(634)	
Landfill closure		(5,645)	
Compensated absences		(27,921)	
Net other post-employment benefit obligation		(4,772)	
Capital leases		(765)	(653,342)
Net assets of governmental activities			$ 899,993

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Streets Capital Projects
REVENUES				
Taxes	$ 125,301	$ 61,024	$ -	$ -
Licenses and permits	4,650	-	-	-
Utility franchise fees	25,994	-	-	-
Fines and forfeitures	10,515	-	-	-
Leases, rents and concessions	7,363	-	-	-
Service charges	4,386	-	-	-
Interest revenue	3,325	1,602	2,218	1,289
Net increase (decrease) in fair value of investments	(26)	9	92	55
Contributions	-	-	141,704	1,647
Intergovernmental revenues	-	-	4,351	-
Gas lease	-	-	-	-
Other	845	109	-	21
Total Revenues	182,353	62,744	148,365	3,012
EXPENDITURES				
Current-				
General government	34,776	-	-	-
Public safety	114,968	-	-	-
Public works	26,384	-	-	149
Public health	1,594	-	-	-
Public welfare	-	-	-	-
Parks and recreation	12,991	-	-	-
Convention and event services	-	-	-	-
Capital Outlay	322	-	280,295	24,100
Debt service-				
Principal retirement	-	24,825	-	-
Interest and fiscal charges	-	27,054	-	-
Total Expenditures	191,035	51,879	280,295	24,249
Excess (deficiency) of revenues over (under) expenditures	(8,682)	10,865	(131,930)	(21,237)
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	-	38,135
Issuance of certificates of obligation	-	-	-	5,900
Capital lease proceeds	322	-	-	-
Gain on sale of land	-	-	-	-
Transfers in	15,956	5,236	-	-
Transfers out	(11,753)	-	(3,882)	-
Total Other Financing Sources and Uses	4,525	5,236	(3,882)	44,035
Net Change in Fund Balances	(4,157)	16,101	(135,812)	22,798
Fund Balances, October 1,	60,346	34,173	143,582	3,583
Fund Balances, September 30	$ 56,189	$ 50,274	$ 7,770	$ 26,381

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

Other Nonmajor Funds	Total Governmental Funds
$ 19,206	$ 205,531
-	4,650
-	25,994
-	10,515
-	7,363
18,090	22,476
3,157	11,591
71	201
1,678	145,029
16,268	20,619
2,091	2,091
3,940	4,915
64,501	460,975
1,135	35,911
4,617	119,585
19,435	45,968
232	1,826
39,253	39,253
11,461	24,452
6,533	6,533
32,944	337,661
-	24,825
-	27,054
115,610	663,068
(51,109)	(202,093)
19,830	57,965
41,210	47,110
-	322
2,105	2,105
9,641	30,833
(4,916)	(20,551)
67,870	117,784
16,761	(84,309)
74,951	316,635
$ 91,712	$ 232,326

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds	
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.	
Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expendirues in the governmental funds.	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
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.	
Issuance of general obligation debt	(105,075)
Bond issuance cost	441
Repayment of general obligation debt	24,825
Repayment of capital lease	437
Amortization of deferred loss on bond refunding	(543)
Amortization of bond premium	1,023
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(2,556)
Arbitrage	787
Accrued interest expense	(1,062)
Post-employment benefit obligation expense	(4,772)
Amortization of issuance cost	(199)
Sales tax	149
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.	
Change in net assets of governmental activities	

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CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	
	Water and Sewer	Governmental Activities-Internal Service Funds
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12,231	$ 28,430
Receivables (net of allowances for uncollectibles):		
Trade accounts	6,765	146
Unbilled trade accounts	7,117	-
Accrued interest	-	75
Other	49	-
Inventory of supplies, at cost	496	90
Subtotal	26,658	28,741
Restricted Assets:		
Bond contingency-investments	9,838	-
Capital construction-investments	35,712	-
Total Current Assets	72,208	28,741
Non-Current Assets		
Restricted Assets:		
Bond contingency-		
Investments	1,249	-
Accrued interest	119	-
Capital construction-		
Investments	15,598	-
Assessments receivable	4	-
Meter deposit investments	4,880	-
Capital Assets:		
Land	6,430	-
Buildings and improvements	2,833	467
Water and sewer system	601,688	-
Machinery and equipment	10,437	38,036
Construction-in-progress	68,543	-
Accumulated depreciation	(194,232)	(25,702)
Total Capital Assets (Net of Accumulated Depreciation)	495,699	12,801
Total Noncurrent Assets	517,549	12,801
Total Assets	$ 589,757	$ 41,542

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, 2008
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	
	Water and Sewer	**Governmental Activities- Internal Service Funds**
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 4,965	$ 525
Accrued compensated absences	137	19
Revenue bonds payable from unrestricted assets	6,713	-
Capital lease obligation	-	310
Current Liabilities Payable From Restricted Assets:		
Accounts payable and accrued liabilities	5,053	-
Retainage	1,075	-
Accrued interest	1,334	-
Estimated claims payable	-	4,740
Revenue bonds payable	3,377	-
Meter deposits	4,880	-
Total Current Liabilities	27,534	5,594
Noncurrent Liabilities:		
Estimated claims payable	-	3,562
Compensated absences	1,779	223
Revenue bonds payable from unrestricted assets	82,634	-
Capital lease obligation	-	415
Total Noncurrent Liabilities	84,413	4,200
Total Liabilities	111,947	9,794
NET ASSETS		
Invested in capital assets, net of related debt	453,210	11,787
Restricted for debt service	9,753	-
Unrestricted	14,847	19,961
Total Net Assets	$ 477,810	$ 31,748
Reconciliation to government-wide statements of net assets:		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(1)	
Net assets of business-type activities	$ 477,809	

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	
	Water and Sewer	**Governmental Activities- Internal Service Funds**
Operating Revenues		
Water sales	$ 54,312	$ -
Sewer service	42,208	-
Service charges	-	30,279
Sundry	5,804	40
Total Operating Revenues	102,324	30,319
Operating Expenses		
Purchase of water	11,782	-
Purchase of sewage treatment	19,606	-
Salaries and wages	11,350	2,044
Employees' retirement	1,609	301
Supplies	3,576	4,588
Maintenance and repairs	2,779	2,933
Utilities	3,562	618
Claims (net of adjustments)	-	16,999
Legal and professional	-	456
Depreciation	11,595	3,732
Miscellaneous services	3,962	3,281
Total Operating Expenses	69,821	34,952
Operating Income (Loss)	32,503	(4,633)
Nonoperating Revenues (Expenses)		
Interest revenue	2,196	964
Net decrease in the fair value of investments	(49)	(19)
Gain (Loss) on sale of assets	-	374
Interest expense and fiscal charges	(1,584)	(50)
Total Nonoperating Revenues (Expenses)	563	1,269
Income before transfers and contributions	33,066	(3,364)
Contributions in aid of construction	2,622	-
Transfers in	-	5,980
Transfers out	(12,462)	(3,800)
Change in Net Assets	23,226	(1,184)
Total Net Assets, October 1	454,584	32,932
Total Net Assets, September 30	$ 477,810	$ 31,748

Net change in net assets - total proprietary funds	$ 23,226
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(524)
Change in net assets of business-type activities	$ 22,702

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds	
	Water and Sewer	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 101,220	$ 33,667
Cash payments to suppliers	(41,545)	(33,953)
Cash payments to employees	(12,841)	(2,332)
Net Cash Provided (Used) By Operating Activities	46,834	(2,618)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	-	5,980
Transfers out	(12,462)	(3,800)
Net Cash Provided By (Used For) Noncapital Financing Activities	(12,462)	2,180
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(35,837)	(3,752)
Principal payments on capital lease	-	(267)
Interest payments on capital lease	-	(50)
Proceeds from sales of capital assets	-	441
Proceeds from issuance of long-term debt	2,335	-
Repayment of long-term debt	(8,230)	-
Interest payment long-term debt	(4,220)	-
Net Cash Used For Capital And Related Financing Activities	(45,952)	(3,628)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from interest earnings	3,356	964
Net increase (decrease) in the fair value of investments	(49)	(19)
Purchase of investments	(30,528)	(1,799)
Maturities/sales of investments	84,351	4,589
Net Cash Provided By Investing Activities	57,130	3,735
Net Increase (Decrease) In Cash And Cash Equivalents	45,550	(331)
Cash And Cash Equivalents, October 1	12,231	28,761
Cash And Cash Equivalents, September 30	$ 57,781	$ 28,430
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (Loss)	$ 32,503	$ (4,633)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,595	3,731
Interest earnings capitalized	(1,191)	-
Interest expense capitalized	2,556	-
Amortization of deferred loss on bond refunding	(57)	-
Provision for bad debts	(82)	-
(Increase) decrease in-		
Receivables	(941)	17
Inventory of supplies	(52)	30
Increase (decrease) in-		
Accounts payable and accrued liabilities	2,398	(486)
Estimated claims payable	-	(1,291)
Retainage payable	(77)	-
Meter deposits	155	-
Accrued compensated absences	27	14
Total adjustments	14,331	2,015
Net Cash Provided (Used) By Operating Activities	$ 46,834	$ (2,618)
Noncash investing, capital, and financing activities:		
Contributions of capital assets from developers	2,622	-
Capital Leases	-	156

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 16,067
Investments		
Money market fund	22,460	-
U. S. Government bonds	-	-
Corporate bonds	750	-
Fixed income mutual bond funds	8,177	-
Common stock mutual bond funds	43,266	290
Balanced mutual funds	10,557	-
Participant borrowing	4,943	-
Self directed brokerage accounts	3,048	-
Total Investments	93,201	290
Total Assets	93,201	$ 16,357
LIABILITIES		
Accounts payable and accrued liabilities	-	$ 16,067
IRC 401 deferred compensation plans	-	290
Total Liabilities	-	$ 16,357
NET ASSETS		
Held in trust for pension benefits	$ 93,201	

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, 2008
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,749
Employee contributions	5,635
Net appreciation (depreciation) in fair value of investments	(11,676)
Total Additions	(3,292)
DEDUCTIONS	
Benefits	4,123
Plan administration	60
Total Deductions	4,183
Increase (Decrease) in Net Assets	(7,475)
Net Assets, October 1	100,676
Net Assets, September 30	$ 93,201

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Financial Statement Presentation

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

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's governmental funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by 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.

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

Arlington Sports Facilities Development Authority, Inc.

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

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 (GAAP). Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

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

Arlington Tomorrow Foundation

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

Arlington Housing Finance Corporation

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

Arlington Industrial Development Corporation

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

C. Government-wide and Fund Financial Statements

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

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

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

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, Debt Service Fund, Stadium Venue Fund, and Street Capital Projects Fund. 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 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. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

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

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

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

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

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

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

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 only Enterprise Fund is the Water and Sewer Fund. This fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and 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.

3. Other Fund Types:

The City additionally reports for the following Fund types:

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

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

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

E. Cash, Cash Equivalents and Investments

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

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

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

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

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

F. Inventories and Prepaid Items

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

G. Capital Assets

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

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

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

Assets	Years
Buildings	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 2008, approximately $1,365,000 of interest costs, net of $1,191,000 of interest earned, were capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Interest expensed (net of capitalized interest) and interest earned in fiscal 2008 for the Water and Sewer Fund amounted to approximately $1,584,000 and $2,196,000, respectively.

I. Arbitrage Liability

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

J. Compensated Absences

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

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (180 for fire fighters). For employees with more than five years of service, one-fourth of the total amount of accumulated sick pay up to a maximum of 120 days is paid at termination. The full amount accumulated up to 120 days maximum is paid if termination is through retirement or death.

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

K. Long-term Obligations

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

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

L. Fund Equity

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

M. New Accounting Pronouncements

During fiscal year 2008, the City adopted the following Governmental Accounting Standards Board ("GASB") Statements:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pensions*. This statement established standards for the measurement, recognition, and display of other post employment benefits expense/expenditures, related liabilities and note disclosures in the financial statements. The City added the required footnote disclosures for fiscal year 2008. See Note 7.

Statement No. 47, *Accounting for Termination Benefits*. This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB 45 and (2) for other termination benefits, the effective date was fiscal 2006. This statement defined the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives). This pronouncement had no impact on current financial statements.

Statement No. 48, *Sales and Pledges of Receivables and Future Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This Statement established criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. The City added the required footnote disclosures for fiscal year 2008. See Note 8.

Statement No. 50 ("GASB 50"), *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB), and in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The City amended the applicable note disclosure and RSI requirements. See Note 7.

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

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This is effective for the City beginning in fiscal year 2009. This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and be required to report a liability related to pollution remediation and be required to estimate its expected outlays for pollution remediation if it knows a site is polluted.

Statement No. 51 ("GASB 51"), *Accounting and Financial Reporting for Intangible Assets,* which is effective for the City beginning in fiscal year 2010. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

Statement No. 52 ("GASB 52"), *Land and Other Real Estate Held as Investments by Endowments,* which is effective for the City beginning in fiscal year 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Statement No. 53 ("GASB 53"), *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the City beginning in fiscal year 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government.

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 2008, the City Council approved budgetary expenditure amendments for the General Fund in the amount of $1,927,837. These additional expenditures were to fund thirteen new police officers and one fire inspector in July 2008, one new construction specialist, three drainage crew staff, the remodel of the third floor City Hall, and additional election costs. The Convention and Visitors Bureau contract was increased by $301,000 to fund enhanced website marketing, targeted media purchases, research to improve sales strategies, outreach initiatives to travel agencies, expanded printing and production of brochures and recruitment efforts for the new President and Chief Executive Officer.

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, 2008, expenditures exceeded appropriations in the General fund by $2,903,000 and $217,000 in public safety and parks and recreation, respectively. These overexpenditures were funded by a reduction in other expenditure categories. In the Park Performance special revenue fund, expenditures exceeded appropriations by $26,000. These overexpenditures were funded by available fund balance in the Park Performance special revenue fund. In the Water and Sewer enterprise fund, expenditures exceeded appropriations in the purchase of sewage treatment by $380,000, employees' retirement by $29,000, supplies by $827,000, maintenance and repairs by $263,000, utilities by $293,000, and franchise fees by $36,000. These overexpenditures were offset by underexpenditures in purchase of water, salaries and wages, depreciation and miscellaneous services.

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. Expenditure driven funds with end of year deficit fund balances and their respective deficits are:

Community Development Block Grant-$519,000
Texas Department of Transportation-$458,000
Texas Criminal Justice Division-$11,000
FEMA-$229,000

These fund balances will all be replenished in 2009 from reimbursements funded by Federal and State Grants.

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 U. S. Government obligations and its agencies or instrumentalities, obligations of Texas and its agencies, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements, commercial paper rated A-1+, P-1 with an underlying long-term rating of AA or better, prime domestic bankers acceptances, government pools and money market funds consisting of any of these securities listed, and obligations of states, cities and other political subdivisions with a rating of AAA and a maximum maturity of 18 months. 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, 2008, the carrying amount of the City's demand deposits was a $2,008,000 deficit (bank balance, $4,289,000). The $2,008,000 consisted of a $1,274,000 balance in City Funds and a $734,000 balance in Component Unit Funds. The balance in cash on hand was $70,000 at year end.

Investments – The City is the beneficiary of a Closure/Post Closure Trust in the amount of $5,645,000. 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 funds in this trust are to be used solely by the City to pay for closure and post closure expenses as they are incurred.

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.

As of September 30, 2008, the City had the following cash, cash equivalents and investments (amounts in thousands):

City Funds	Fair Value	Weighted average Maturity (in days)
Demand Deposits	$1,274	n/a
Cash on Hand	70	n/a
Other Cash in Bank	(99)	n/a
General Operating/Internal Pool	304,185	190
Dallas Cowboy Complex Development Project	8,016	1
Debt Service and Working Capital Reserve	7,068	244
Dallas Cowboy Complex Development Project Debt Service Reserve	40,894	1
Closure/Post-closure trust fund	5,645	1
Self-Insurance	3,603	24
Total City	**$370,656**	
Fiduciary Funds	**Fair Value**	**Weighted average Maturity (in days)**
Agency Funds-Internal Pool	$16,094	190
Agency Funds- Cash in Bank	(27)	n/a
Agency Funds- Mutual Funds	290	n/a
Pension Trust Funds – Money Market Fund	22,460	n/a
Pension Trust Funds – Corporate Bonds	750	n/a
Pension Trust Funds- Mutual Funds	69,991	n/a
Total Fiduciary Funds	**$109,558**	
Component Units		
Demand Deposits	$734	n/a
Cash in Bank	5,057	n/a
ATF – Internal Pool	47,432	190
ASFDA – Money Market	1,880	1
ASFDA – U.S. Treasury	14,229	45
AHA – Bank Cert. of Deposit	2,804	639
Total Component Units	**$72,136**	
Total Entity – Cash, Cash Equivalents and Investments	**$552,350**	

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	2 Years	1 Year
Capital Project	2 Years	18 Months
Dallas Cowboy Complex Development Project	4 Years	3 Years
Debt Service and Working Capital Reserve	5 Years	4 Years
Dallas Cowboy Complex Development Debt Service Reserve	7 Years	7 Years
Debt Service Sinking	7 Years	7 Years
Self-Insurance	7 Years	5 Years
Closure/Post-closure Trust Fund	10 Years	8 Years

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

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer, but the City's Investment Committee is assigned the strategy of portfolio diversification. All securities are AAA rated.

As of September 30, 2008 the City's overall portfolio consisted of:

City Funds	Fair Value
Demand Deposits	$1,274
Cash on Hand	70
Cash in Bank	(99)
Federal Home Loan Bank Bonds	67,354
Federal Home Loan Mortgage Corp. Bonds	64,704
Federal National Mortgage Association Bonds	37,180
Farmer Mac Bonds	8,579
Federal Farm Credit Bonds	4,816
U.S. Treasury	1,289
Wells Fargo Money Market	54,555
TexPool	50,506
TexasDaily	35,420
TexStar	45,008
Total City	**$370,656**
Fiduciary Funds	**Fair Value**
Agency Funds - Cash in Bank	$(27)
Agency Funds - Mutual Funds	290
Agency Funds - Federal Home Loan Bank	3,443
Agency Funds - Federal Home Loan Mortgage Corp.	3,307
Agency Funds - Federal National Mortgage Association	1,900
Agency Funds - Farmer Mac	439
Agency Funds - Federal Farm Credit	246
Agency Funds - U.S. Treasury	66
Agency Funds - TexPool	2,582
Agency Funds - TexasDaily	1,810
Agency Funds - TexStar	2,301
Pension Trust Funds - Money Market Fund	22,460
Pension Trust Funds - Corporate Bonds	750
Pension Trust Funds - Mutual Funds	69,991
Total Fiduciary Funds	**$109,558**
Component Units	
Demand Deposits	$734
Cash in Bank	5,057
ATF - Federal Home Loan Bank	10,147
ATF - Federal Home Loan Mortgage Corp.	9,747
ATF - Federal National Mortgage Association	5,601

ATF - Farmer Mac	1,292
ATF - Federal Farm Credit	726
ATF - U.S. Treasury	194
ATF - TexPool	7,609
ATF - TexasDaily	5,336
ATF - TexStar	6,780
ASFDA – Wells Fargo Money Market	1,880
ASFDA – U.S. Treasury	14,229
AHA – Bank Cert. of Deposit	2,804
Total Component Units	**$72,136**
Total Entity – Cash, Cash Equivalents and Investments	**$552,350**

Custodial Credit Risk. State statutes require that all City deposits in financial institutions be fully 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. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2008. The City's bank balance (excluding Component Units) was covered by collateral with a fair value of $10,566,098. The bank balance was fully collateralized by securities held in the City's name by the Federal Reserve Bank through a tri-party (City, depository bank and Federal Reserve Bank) collateral agreement.

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, 2008, the City's investment in TexPool was $60,697,000 with a market value of $60,697,000. The City's investment in TexasDaily was $42,566,000 with a market value of $42,566,000 and the City's investment in TexStar was $54,089,000 with a market value of $54,089,000.

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. Penalty and interest is 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, 2007, upon which the original FY08 levy was based, was $17,559,408,000.

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, 2008, the City had a tax rate of $0.6480 ($0.4467 for general government and $0.2013 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 $325,200,243 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $17,559,408,000.

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

3. DALLAS COWBOYS COMPLEX DEVLEOPMENT PROJECT

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

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, after the Complex opens, at a 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. The lease is accounted for as an operating lease.

City Debt – In 2005, the City issued $297,990,000 Dallas Cowboy Complex Special to fund the City's share of the project costs for the Complex, including $164,265,000 Dallas Cowboys Complex Special Obligation Tax-Exempt Special Tax Bonds, Series 2005B (the "Multi-Modal Bonds"). See Note 8. The Multi-Modal Bonds are hedged with two interest rate swaps. See Note 12.

Conduit Debt - In 2006, $147,865,000 Dallas Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 (the "Dallas Cowboys Admission and Parking Taxes Revenue Bonds"), with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P., to fund a portion of the Dallas Cowboy's funding for the Complex. The Dallas Cowboys Admission and Parking Taxes Revenue Bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt. At September 30, 2008, outstanding conduit debt was $147,865,000.

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, 2008 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	Stadium Venue	Water & Sewer	Street Capital Projects	Other Nonmajor Governmental Funds	Internal Service Funds	Total
Receivables:								
Taxes	$ 8,350	$ 425	$ -	$ -	$ -	$ 1,297	$ -	$ 10,072
Franchise Fees	6,404	-	-	-	-	-	-	6,404
Trade Accounts	-	-	-	8,783	-	-	146	8,929
Unbilled Trade Accounts	-	-	-	7,413	-	-	-	7,413
Special Assessments	-	-	-	-	192	-	-	192
Sales Taxes	8,061	4,050	-	-	-	2,025	-	14,136
Accrued Interest	2,165	68	25	-	-	-	75	2,333
Other	2,676	172	-	49	-	1,722	-	4,619
Gross Receivables	27,656	4,715	25	16,245	192	5,044	221	54,098
Less: Allowance for Uncollectibles	(5,344)	-	-	(2,314)	-	(28)	-	(7,686)
Net total Receivables	$ 22,312	$ 4,715	$ 25	$ 13,931	$ 192	$ 5,016	$ 221	$ 46,412

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

(Amounts expressed in thousands)

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 81,760	$ 3,328	$ (166)	$ 84,922
Construction in progress-other	102,605	59,765	(30,282)	132,088
Construction in progress-stadium	371,746	280,295	-	652,041
Total capital assets, not being depreciated	556,111	343,388	(30,448)	869,051
Capital assets, being depreciated:				
Buildings	149,105	7,486	-	156,591
Improvements other than buildings	55,584	-	-	55,584
Equipment	61,981	9,718	(2,703)	68,996
Infrastructure	783,871	8,790	-	792,661
Total capital assets, being depreciated	1,050,541	25,994	(2,703)	1,073,832
Less accumulated depreciation for:				
Buildings	54,548	5,818	-	60,366
Improvements other than buildings	18,936	-	-	18,936
Equipment	38,374	8,538	(2,649)	44,263
Infrastructure	500,246	28,383	-	528,629
Total accumulated depreciation	612,104	42,739	(2,649)	652,194
Total capital assets, being depreciated, net	438,437	(16,745)	(54)	421,638
Governmental activities capital assets, net	$ 994,548	$326,643	($30,502)	$1,290,689

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 4,941	$ 1,489	$ -	$ 6,430
Construction in progress	73,780	35,664	(40,901)	68,543
Total capital assets, not being depreciated	78,721	37,153	(40,901)	74,973
Capital assets, being depreciated:				
Buildings and improvements	2,833	-	-	2,833
Water and sewer system	560,022	41,666	-	601,688
Machinery and equipment	9,896	541	-	10,437
Total capital assets, being depreciated	572,751	42,207	-	614,958
Less accumulated depreciation for:				
Buildings and improvements	1,017	53	-	1,070
Water and sewer system	171,889	11,382	-	183,271
Machinery and equipment	9,731	160	-	9,891
Total accumulated depreciation	182,637	11,595	-	194,232
Total capital assets, being depreciated, net	390,114	30,612	-	420,726
Business-type activities capital assets, net	$ 468,835	$ 67,765	($40,901)	$ 495,699

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

Governmental activities:	
General government	$ 3,620
Public safety	2,492
Parks and recreation	3,518
Public works	29,371
Public health	6
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,732
Total depreciation expense – governmental activities	$42,739
Business-type activities:	
Water and sewer	$ 11,595
Total depreciation expense – business-type activities	$ 11,595

Discretely presented component units:

(Amounts expressed in thousands)

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Sports Facilities Development Authority, Inc.:				
Capital assets, being depreciated:				
Buildings and improvements	$2,739	$ -	$ -	$2,739
Total capital assets, being depreciated	2,739	-	-	2,739
Less accumulated depreciation for:				
Buildings and improvements	1,478	110	-	1,588
Total accumulated depreciation	1,478	110	-	1,588
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$1,261	($ 110)	$ -	$1,151

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Housing Authority, Inc.:				
Capital assets, being depreciated:				
Machinery and equipment	$ 700	$ 125	$ -	$ 825
Total capital assets, being depreciated	700	125	-	825
Less accumulated depreciation for:				
Machinery and equipment	260	42	-	302
Total accumulated depreciation	260	42	-	302
Arlington Housing Authority, Inc. activities capital assets, net	$ 440	$ 83	$ -	$ 523

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Convention and Visitors Bureau, Inc.:				
Capital assets, being depreciated:				
Machinery and equipment	$ 604	$ 49	$ -	$ 653
Total capital assets, being depreciated	604	49	-	653
Less accumulated depreciation for:				
Machinery and equipment	359	84	-	443
Total accumulated depreciation	359	84	-	443
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$ 245	($ 35)	$ -	$ 210

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 827 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, 2007 valuations are contained in the 2007 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.org.

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

Members can retire at ages 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. 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 14.55% of covered payroll for the months in calendar year 2007, and 14.88% for the months in calendar year 2008. 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, 2005 valuation is effective of rates beginning January 1, 2007). If a change in plan provisions is elected by the City, this rate can change.

Per TMRS statutes, there is a 13.5 percent and 15.5 percent statutory maximum in effect based on the benefit levels elected by the city. If the required rate calculated by TMRS exceeds one or both of those rates, the city council at its option can choose to either adjust benefits to reduce the required rate to conform with the maximums or lift the maximums altogether and to pay the full required rate. Arlington's maximum is 15.5 percent.

Annual Pension Cost and Net Pension Obligation:

The City's annual pension cost of $19,486,546 was equal to the City's required contributions.

Three-Year Trend Information

Fiscal Year	Annual Pension Cost	Percentage of APC Contribution	Net Pension Obligation (Asset)
2006	$14,512,396	100%	$ -
2007	$15,164,648	100%	-
2008	$19,486,546	100%	-

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.

Funding State and Funding Progress:

As of December 31, 2007, the most recent actuarial valuation date, the plan was 61.3 percent funded. The actuarial accrued liability for benefits was $569,403,626, and the actuarial value of assets was $348,784,857, resulting in an unfunded actuarial accrued liability (UAAL) of $220,618,769. The covered payroll (annual payroll of active employees covered by the plan) was $130,957,976, and the ratio of the UAAL to the covered payroll was 168.5%. As described below, subsequent to the 2007 valuation but prior to the end of the fiscal year, the City adopted a series of plan changes in order to reduce the required rate and improve funded status.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial Valuation Date	December 31, 2007
Actuarial Cost Method	Projected unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years – Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Payroll growth	3%
Withdrawal rates (low, mid or high) for Male/Female	Mid-High/Mid-High
Inflation Rate	3%
Cost-of-Living Adjustments	2.1%

Changes in Actuarial and Amortization Methods and Future Changes to Plan Benefits:

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS CAFR.

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).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been $138,169,762 and the funded ratio would have been 71.6% rather than the $220,619,000 and 61.3% as presented in the required supplementary information section of this report.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 accrual valuation.

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, 2008, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $91,115,000.

The City's total payroll during fiscal 2008 was $145,848,000. The current year contribution was calculated based on a covered payroll of $84,113,000, resulting in a required and actual employer contribution of $2,273,000 and actual employee contributions of $5,532,000. The employer contribution represents 2.70 percent of the covered payroll. The employee contribution represents approximately 6.6 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2008. 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, 2007, the most recent actuarial valuation date, the plan was 120.3 percent funded. The actuarial accrued liability for benefits was $1,056,180, and the actuarial value of assets was $1,270,281, resulting in an excess funded actuarial accrued liability (EAAL) of $214,101. The covered payroll (annual payroll of active employees covered by the plan) was $2,557,890, and the ratio of the UAAL to the covered payroll was 8.4%.

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is currently 3.3 percent. The City's required contribution rate was determined as part of the July 1, 2007, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities.

The actuarial assumptions used in the July 1, 2007 actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

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

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
9/30/06	$67,000	100.00%	-
9/30/07	$114,000	100.00%	-
9/30/08	$112,000	100.00%	-

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

IRC 457 Deferred Compensation Plans

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

City contributions for the above plans for the year ended September 30, 2008, are as follows (amounts in thousands):

TMRS	$19,486
THRIFT	2,273
PTDIT	112
	$21,871

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, 2008 (amounts in thousands):

	Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ASSETS			
Investments	$1,595	$91,115	$92,710
Total Assets	$1,595	$91,115	$92,710
NET ASSETS, Held in Trust For Pension Benefits	$1,595	$91,115	$92,710

	Changes in Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ADDITIONS			
Employer contributions	$ 112	$ 2,273	$ 2,385
Employee contributions	103	5,532	5,635
Net appreciation in fair value of investments	(99)	(11,584)	(11,683)
Total Additions	$ 116	$(3,779)	$(3,663)
DEDUCTIONS			
Benefits	94	3,754	3,848
Plan administration	28	10	38
Total Deductions	122	3,764	3,886
Increase/(Decrease) in Net Assets	(6)	(7,543)	(7,549)
NET ASSETS, October 1	1,601	98,658	100,259
NET ASSETS, September 30	$1,595	$91,115	$ 92,710

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.

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, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	33
Active plan members	1,999
Total	2,032
Number of participating employers	1

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, 2008, the City contributed $364,000 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, present 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, 2007, the most recent actuarial valuation date, the plan was 13.3 percent funded. The actuarial accrued liability for benefits was $2,633,177, and the actuarial value of assets was $349,107, resulting in an unfunded actuarial accrued liability (UAAL) of $2,284,070. The covered payroll (annual payroll of active employees covered by the plan) was $105,480,234, and the ratio of the UAAL to the covered payroll was 2.2%.

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 07/01/07	
Actuarial cost method	Entry age normal
Amortization method	Level dollar amortization
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return	7.5 percent
(Includes an inflation assumption of 4.5 percent)	
Pay progression	5.5 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 obligation (dollar amounts in thousands):

Annual required contribution	$364
Interest on net OPEB Obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	364
Contributions made	(364)
Increase in net OPEB obligation	0
Net OPEB obligation – beginning of year	0
Net OPEB obligation – end of year	$ 0

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years are as follows (dollar amounts in thousands):

Fiscal Year Ending	**Annual OPEB Cost**	**Percentage Annual OPEB Contribution**	**Net OPEB Obligation**
9/30/06	$348,000	100.00%	-
9/30/07	$323,000	100.00%	-
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, 2008 (in thousands):

	Net Assets
Assets	
Investments	$491
Total assets	$491
Net assets, held in trust for	
Other postemployment benefits	$491

	Changes in Net Assets
Additions	
Employer contributions	$364
Net appreciation in fair value	
Of investments	7
Total additions	$ 371
Deductions	
Benefits	275
Plan Administration	22
Total deductions	297
Increase in net assets	74
Net assets, October 1, 2007	417
Net assets, September 30, 2008	$ 491

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, 2007, 489 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	$8,100
Interest on net OPEB Obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	8,100
Contributions made	(3,328)
Increase in net OPEB obligation	4,772
Net OPEB obligation – beginning of year	0
Net OPEB obligation – end of year	$4,772

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 are as follows (dollar amounts in thousands):

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Contribution	Net OPEB Obligation
9/30/08	$ 8,100	41.09%	$ 4,772

Funded Status and Funding Progress. As of January 1, 2007, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $101.8 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $101.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $138 million, and the ratio of the UAAL to the covered payroll was 73.7percent.

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.

In the January 1, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent discount rate which is based on the City's marginal borrowing rate on long-term debt. Healthcare cost trend rates included an initial medical trend rate of 9 percent (11 percent for drugs) declining by decrements to an ultimate rate of 5 percent after four years (seven years for drugs). The UAAL is being amortized over a thirty year period.

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 .22 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, 2007, 2006, and 2005, were $282,863, $262,378, and $251,396 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. During fiscal year 2008 the City issued $16,000,000 of commercial paper with interest rates ranging from 2.25 percent to 3.65 percent. This debt will mature on various days over the next several months. The City refunded $8,000,000 of commercial paper with part of the Permanent Improvement Bonds, Series 2008.

General short-term debt balances and transactions for the year ended September 30, 2008 are as follows (amounts in thousands):

	Balance, October 1, 2007	Additions	Retirements and Other	Balance, September 30, 2008
Commercial Paper	$14,000	$16,000	$8,000	$22,000

General Obligation Bonds

In October, 2007 the City issued $18,085,000 in Permanent Improvement Bonds, Series 2007 for the purpose of making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature on August 15th of each year over a period from 2008 to 2027. Interest is payable February 15 and August 15 of each year commencing February 15, 2008. The total interest requirement for these bonds, at rates ranging from 4.0 percent to 5.5 percent, aggregate $8,162,477.

The City also issued $39,880,000 in Permanent Improvement, Series 2008 in June 2008 for the purpose of making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature August 15th of each year over a period from 2009 to 2026. Interest is payable February 15 and August 15 of each year commencing February 15, 2009. The total interest requirement for these bonds, at rates ranging from 3.25 percent to 4.5 percent, aggregate $17,918,013.

General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.5% - 6.000%	$120,185
Governmental activities – refunding	2.5% - 6.375%	122,735
Total governmental		$242,920

Annual debt service requirements to maturity for general obligation bonds are as follows:

	Governmental activities	
Year Ending September 30	General Obligation	GO Interest
2009	$ 21,540	$ 11,622
2010	20,300	10,294
2011	21,275	9,373
2012	20,750	8,387
2013	20,095	7,399
2014-2018	82,450	24,041
2019-2023	41,745	8,287
2024-2028	14,765	1,814
Total	$242,920	$81,217

General obligation debt authorized and unissued as of September 30, 2008, amounted to $36,280,000.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. The withholding is allocated between the General Fund for $12,427 per month and the ASFDA for $6,140 per month. As of September 30, 2008, this liability is reported at $633,810 in the governmental activities and $313,168 in the component units of the statement of net assets. Beginning in 2003 sales tax allocations were reduced monthly by the Comptroller's office.

Certificates of Obligation

The City issues certificates of obligation ("CO's) to finance the acquisition and construction of capital assets including certain capital improvements projects, municipal facilities, and machinery and equipment. In October, 2007 the City issued Combination Tax and Revenue Certificates of Obligation, Series 2007 in the amount of $7,180,000. Interest rates on the new CO's range from 4.0 percent to 5.0 percent with all issuances scheduled to mature from 2008 to 2027.

The City also issued $5,920,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008A in June 2008. Interest rates on the new CO's range from 4.0 percent to 5.5 percent with all issuances scheduled to mature from 2009 to 2028.

In June, 2008 the City issued Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B in the amount of $34,010,000. Interest rates on the CO's range from 3.5 percent to 5.25 percent with all issuances scheduled to mature from 2013 to 2033.

Annual debt service requirements to maturity for certificates of obligation of the primary government are as follows:

Year Ending September 30	Governmental activities Certificates of Obligation	CO Interest
2009	$ 3,690	$ 3,311
2010	3,580	2,770
2011	2,605	2,609
2012	2,580	2,497
2013	3,120	2,393
2014-2018	13,560	10,156
2019-2023	12,440	7,357
2024-2028	12,750	4,360
2029-2033	11,285	1,610
Total	$ 65,610	$ 37,063

Special Obligation Bonds

The city created the Arlington Sports Facilities Development Authority, Inc. (the "ASFDA"), to promote economic development within and for the City through the development and financing of certain authorized facilities that would improve the availability of recreational and sports opportunities for the citizens of the City and the Dallas-Fort Worth Metroplex.

In 1993, the ASFDA issued $17,179,900 junior Lien Revenue Bonds, First Series (Non-Interest Bearing Seat Option Bonds) to holders of seat options (the "Texas Rangers Ballpark Bonds") to fund a portion of the Texas Rangers Baseball Club's share of project costs for the Texas Rangers sports facility. The Texas Rangers Ballpark Bonds are limited special obligations of the ASFDA, secured by a subordinated junior lien on the one-dollar ticket surcharge of up to $2 million annually. The Texas Rangers Ballpark Bonds are due on December 31, 2008, and are callable at any time at the option of the ASFDA.

In 2005, the City issued $297,990,000 Dallas Cowboys Complex Special Obligations, consisting of Tax-Exempt Special Tax Bonds, Series 2005A and 2005B and Taxable Special Tax and Revenue Bonds, Series 2005C (collective, the "Dallas Cowboys Stadium Bonds"). the Dallas Cowboys Stadium Bonds funded the City's share of project costs for the Dallas Cowboys sports facility. The Series 2005A and 2005C bonds mature annually in varying amounts through fiscal year 2035, and interest is payable semiannually at fixed interest rates ranging from 3.0 percent to 5.0 percent. The Series 2005B bonds mature in fiscal year 2036, and interest is payable monthly at variable interest rates. See Note 12.

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

Year Ending	Governmental Activities		Component Units	
September 30	Principal	Interest	Principal	Interest
2009	$19,411	$ 9,959	$17,180	$ -
2010	34,153	9,337	-	-
2011	36,338	8,696	-	-
2012	36,618	7,966	-	-
2013	36,923	7,191	-	-
2014-2018	48,482	29,935	-	-
2019-2023	2,285	27,367	-	-
2024-2028	-	27,253	-	-
2029-2033	46,905	24,984	-	-
2034-2035	36,875	5,349	-	-
	$297,990	$158,037	$17,180	$ -

The City has pledged future revenues consisting of one-half cent sales tax, two percent hotel occupancy tax, five percent car rental tax, future stadium base rental revenue of $2 million per year and five percent of any future naming rights up to a maximum of $500 thousand annually to repay the Dallas Cowboys Stadium Bonds. Annual principal and interest payments are expected to require 100 percent of these revenues. The total principal and interest remaining to be paid on the Dallas Cowboys Stadium Bonds is $456,027,000. Principal and interest payments and total pledged revenues for the year ended September 30, 2008 were $12,389,000 and $24,184,000, respectively.

Revenue Bonds

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

In July 2008, the City issued Water and Sewer Revenue Bonds in the amount of $865,000 for the purpose of expanding the water treatment plant. The bonds were sold to the Texas Water Development Board. These bonds will mature on June 1, 2009. Interest is payable December 1, 2008 and June 1, 2009. Total interest requirements for the revenue bonds at a rate of .85 percent aggregate $6,147.

In September 2008, the City issued Water and Sewer Revenue Bonds in the amount of $1,470,000 for the purpose of expanding the water treatment plant. The bonds were sold to the Texas Water Development Board. These bonds will mature June 1, 2009 and June 1, 2010. Interest is payable June 1, 2009 and June 1, 2010. Total interest requirements for the revenue bonds at a rate of .84 percent to 1.1 percent aggregate $14,368.

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

Year Ending	Business Activities		Business Activities - TWDB	
September 30	Principal	Interest	Principal	Interest
2009	$ 8,190	$ 3,999	$1,900	$ 16
2010	8,145	3,240	435	4
2011	7,495	3,342	-	-
2012	7,155	3,027	-	-
2013	6,705	2,714	-	-
2014-2018	28,490	9,236	-	-
2019-2023	18,900	3,546	-	-
2024-2027	5,690	580	-	-
	$ 90,770	$29,684	$ 2,335	$ 20

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 systems. The pledge continues for the life of the bonds. For the year ended September 30, 2008, net pledged revenues for the water enterprise fund was $46,294,000 and debt service on the revenue bonds was $12,313,000.

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2008 (amounts expressed in thousands):

	10/1/2007	Increases	Reductions	9/30/2008	Due Within One Year
Governmental activities:					
General obligation debt	$205,875	$ 57,965	($20,920)	$242,920	$21,540
Special tax revenue debt	297,990	-	-	297,990	19,411
Certificates of obligation	22,405	47,110	(3,905)	65,610	3,690
Premium on general bonds	5,135	-	(645)	4,490	-
Premium on special bonds	6,488	-	(378)	6,110	-
Deferred loss on refunding	(2,474)	-	543	(1,931)	-
Net governmental bonds payable	535,419	105,075	(25,305)	615,189	44,641
Compensated absences	25,593	3,846	(1,276)	28,163	1,572
Capital leases	1,727	469	(706)	1,490	665
Arbitrage liability	970	-	(787)	183	-
Claims	9,592	5,123	(6,413)	8,302	4,740
Landfill closure	4,511	1,134	-	5,645	-
Sales tax	783	-	(149)	634	149
Net other post-employment benefit oblg.	-	4,772	-	4,772	-
Total governmental long-term liabilities	$578,595	$120,419	($34,636)	$664,378	$51,767
Business-type activities:					
Water and sewer bonds	$99,000	$2,335	($8,230)	$93,105	$10,090
Deferred loss on refunding	(438)	-	57	(381)	-
Net water and sewer bonds payable	98,562	2,335	(8,173)	92,724	10,090
Compensated Absences	1,888	141	(113)	1,916	137
Total business-type long-term liabilities	$100,450	$2,476	($8,286)	$94,640	$10,227
Component units:					
Special obligation debt	$17,180	$-	$ -	$17,180	$17,180
Sales tax payable	387	-	(74)	313	74
Total component unit long-term debt	$17,567	$-	($74)	$17,493	$17,254

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, 2008, previously defeased debt still outstanding amounted to $33,095,000.

10. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2008, is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$2,334	$ -
Nonmajor Funds	-	2,334
	$2,334	$2,334

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2009.

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

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 11,753	$ 15,956
Debt Service Fund	-	5,236
Stadium Venue Fund	3,882	-
Total Major Governmental Funds	15,635	21,192
Water and Sewer Fund	12,462	-
Nonmajor Funds	4,916	9,641
Internal Service Funds	3,800	5,980
Total All Funds	$36,813	$36,813

The combined Water and Sewer, and Convention and Event Services transferred $3,736,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred $6,684,000 to Street Maintenance Fund, Special Transportation (Handitran), Arlington Property Finance Authority, Parks Performance Fund and other special revenue funds to cover budgeted operating expenses.

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

The Debt Service Fund received transfers of $5,236,000 from the Convention and Event Services, Water and Sewer and Stadium 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 $5,645,000 reported as a landfill closure and post-closure accrued liability at September 30, 2008, represents the cumulative amount reported to date based on the use of approximately 66 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $2,849,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2008. 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, $6 million of which was for the purchase of the City's dirt inventory. The remaining $9 million was recorded as deferred revenue and 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, 2008, 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, 2008. 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	$ 61,156	$ 24,729
Park Construction	18,612	1,973
Police Construction	12,879	1,073
Traffic Construction	8,309	1,354
Water and Sewer Construction	68,543	15,057
Stadium Venue	652,042	3,853
	$ 821,541	$ 48,039

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

Litigation

The City is currently involved in an employment lawsuit in wherein the plaintiff alleges that his termination violated the Family Medical Leave Act. The case was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City for violation of the FMLA. The case was appealed to the Fifth Circuit. On June 30, 2006, the Fifth Circuit affirmed the liability portion of the judgment and remanded the damages portion to the district court to apply an offset for benefits received from the City. Meanwhile, it was learned that the plaintiff filed bankruptcy prior to his appeal and failed to disclose the trial court judgment to the bankruptcy court. The bankruptcy case was re-opened and the bankruptcy trustee now owns the plaintiff's claim. The District Court found that the plaintiff is judicially estopped from pursuing the judgment but the trustee can pursue the claim to the extent of the Bankruptcy Estate. Both sides have appealed to the 5th Circuit. Although the damages were reduced to $357,000, the judge awarded attorneys' fees of $695,357. Damages in the event of failing to prevail on the legal issues are anticipated to exceed $1,000,000. The City is pursuing settlement. Probability of an unfavorable outcome is likely.

The City is currently involved in an American with Disabilities Act discrimination lawsuit in which six wheel chair bound plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City of Arlington. The City contends that the City is in compliance with the ADA. The City's motion to dismiss was granted and the case is on appeal to the 5th Circuit. The probability of an unfavorable outcome is remote.

Various 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.

Derivative Instruments

Objective of the swap. In 2005, the City issued $164,265,000 Dallas Cowboys Complex Special Obligation Tax-Exempt Special Tax Bonds, Series 2005B (the "Multi-Modal Bonds") to fund a part of the City's share of project costs for the Dallas Cowboys Project, See Note 8.

Initially, the City will pay a variable interest rate on the Multi-modal Bonds. In anticipation of the Multi-modal Bonds' issuance, the City entered into two separate pay-fixed, receive-variable interest rate swaps (collectively, the "Swaps") to synthetically fix the variable interest rate on the Multi-Modal Bonds for an established period and manage its interest rate risk, while obtaining a lower fixed interest rate than would have been available for similar fixed-rate debt obligations.

The variable interest rate the City will receive under the Swaps is now called the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The variable interest rate on the Multi-Modal Bonds is expected to closely approximate SIFMA. The fixed interest rate the City will pay under the Swaps is 3.719%.

The Swaps were entered into in equal notional amounts of $82,132,500 with JPMorgan Chase Bank, N.A. and $82,132,500 with UBS AG, Stamford Branch (collectively, the "Counterparties"). The Multi-modal Bonds were supported by a Standby Bond Purchase Agreement with DEPFA BANK, plc ("DEPFA"), and the principal and interest payments on the Multi-Modal Bonds, as well as the swap payments were insured by MBIA Insurance Corporation ("MBIA").

When MBIA was downgraded, a majority of the bonds were "put" to DEPFA and the variable interest rate on the Multi-Modal Bonds rose and no longer approximated the SIFMA Municipal Swap Index. In effect, the swap was "broken", and the City had to pay the difference between the SIFMA Municipal Swap Index and the variable interest rate on the Multi-Modal Bonds, as well as the fixed payment of 3.719% on the swaps. See subsequent events in Footnote 18.

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the Swaps, as of September 30, 2008, are included below. The Swaps contain one scheduled reduction to the outstanding notional amounts on September 1, 2013 from $164,265,000 to $115,055,000. This notional reduction is expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
Series 2005B	$ 82,132,500	9/1/2005	3.719%	SIFMA	$ (1,956,194)	9/1/2016	JPMorgan Chase Bank N.A.	(Aaa/AA/AA-)
Series 2005B	$ 82,132,500	9/1/2005	3.719%	SIFMA	$ (1,960,513)	9/1/2016	UBS AG, Stamford Branch	(Aa2/AA-/AA-)
	$ 164,265,000				$ (3,916,707)			

Fair value. The Swaps had a negative fair value as of September 30, 2008 of ($3,916,707). This fair value takes into consideration the prevailing interest rate environment, and the specific terms and conditions of the transaction. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swaps, assuming that the current forward tax-exempt rates implied by the SIFMA yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the taxable spot rates implied by the current London Interbank Offered Rate ("LIBOR") yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the Swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on its Swaps because the Swaps had a negative fair value. However, should interest rates change and the fair values of the Swaps become positive, the City would be exposed to credit risk in the amount of the Swaps' fair value. The credit ratings of JPMorgan Chase Bank, N.A. are Aaa/AA/AA-, and of UBS AG, Stamford Branch are Aa2/AA-/AA-by Moody's Investors Service, Standard & Poor's Ratings Group, and Fitch Investors Service, respectively.

The Swaps require collateralization of the fair value of the Swaps, should the Counterparties' credit ratings fall below A2 by Moody's or A by S&P. This protects the City by mitigating credit risk inherent in the Swaps. Collateral on the Swaps is to be in the form of cash or negotiable debt obligations (other than interest-only obligations) issued by the U.S. Treasury Department and held by a third-party custodian.

Basis risk. Basis risk is the risk that the variable interest rate received from the Counterparty (SIFMA) on the Swaps differs from the variable interest rate paid by the City on the Multi-Modal Bonds. The City bears basis risk on its Swaps, since SIFMA Municipal Swap Index that the City receives on the Swaps is less than the variable interest rate that the City pays on the Multi-Modal Bonds. The expected overall synthetic fixed rate from the Swaps has not been realized in the fiscal year ended September 30, 2008.

Termination risk. The City or the Counterparty may terminate the Swaps if the other party fails to perform under the terms of the respective contracts. If the Swaps are terminated, the Multi-Modal Bonds would no longer be hedged to a fixed rate. The City has a swap insurance policy in place with MBIA, which mitigates its exposure to termination risk. The City will not be required to post collateral as long as MBIA's credit ratings do not fall below A2 by Moody's or A by S&P. As of September 30, 2008, MBIA's credit ratings were A2 by Moody's and AA by S&P.

If at the time of termination the Swaps have a negative fair value, the City would be liable to the Counterparty for a payment equal to the Swaps' fair value. The additional termination events in the agreement are limited to credit related events only, and the ratings triggers are substantially below the current credit rating of the City.

Rollover risk. The City is exposed to rollover risk because the Swaps mature prior to the stated maturity date of the Multi-Modal Bonds. The Swaps mature on September 1, 2016, and the Multi-Modal Bonds mature on August 15, 2035. If new swaps are not put in place, the Multi-modal Bonds would no longer be hedged to a fixed rate. The City anticipates having revenue to enable it to begin paying off some or all of the Multi-Modal Bonds prior to the stated maturity date, which would reduce this risk.

Swap payments and associated debt. As of September 30, 2008, because $144,615,000 of the Multi-Modal Bonds have been put to the DEPFA, the interest cost on these "bank bonds" is 125 basis points plus the greater of a) the federal funds rate + 50 basis points or b) the prime rate. The remaining $19,650,000 of Multi-Modal Bonds are still held by other bondholders and subject to weekly reset of the variable interest rate. The debt service requirements below reflect accelerated amortization of the bank bonds as required by the Standby Bond Purchase Agreement with DEPFA. The table below assumes the bank bond rate and the Multi-Modal Bond rate are the same as the rates as of September 30, 2008.

Dallas Cowboys Complex Special Obligations, Series 2005B

Fiscal Year Ended September 30	Principal	Interest (1)	Total
2009	$ 14,461,500	$ 3,679,683	$ 18,141,183
2010	28,923,000	3,225,881	32,148,881
2011	28,923,000	2,772,079	31,695,079
2012	28,923,000	2,318,277	31,241,277
2013	28,923,000	1,864,475	30,787,475
2014-2018	14,461,500	8,946,981	23,408,481
2019-2023	-	11,220,150	11,220,150
2024-2028	-	11,220,150	11,220,150
2029-2033	-	11,220,150	11,220,150
2034-2035	19,650,000	4,488,060	24,138,060
Total	$ 164,265,000	$ 60,955,886	$ 225,220,886

(1) Includes interest on both Multi-Modal and Bank Bonds, which have been put to DEPFA Bank, the standby Bond Purchase Agreement counterparty includes Swap payments, as well as Standy Bond purchase Agreement fees and remarketing fees.

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 2.75 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $2,223,000 at September 30, 2008.

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 $300,000 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 5.0 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $4,479,000 at September 30, 2008.

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.

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately $1,600,000 at September 30, 2008.

Changes in the balances of claims liabilities during fiscal 2008 and 2007 were as follows (amounts in thousands):

	Workers' Compensation		Health		APFA	
	2008	2007	2008	2007	2008	2007
Unpaid claims Oct 1	$ 4,699	$ 4,406	$ 2,315	$ 2,700	$ 2,578	$ 3,338
Incurred Claims (including IBNRs and changes in estimates)	1,581	3,195	14,655	16,363	(183)	(468)
Claim payments	(1,801)	(2,902)	(15,370)	(16,748)	(172)	(292)
Unpaid Claims Sept 30	$ 4,479	$ 4,699	$ 1,600	$ 2,315	$ 2,223	$ 2,578

14. LEASES

A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals approximately $1,490,000 and is reported as capital lease obligations current liabilities (approximately $665,000) and capital lease obligations non-current liabilities (approximately $825,000) in the General Services Fund and the Court Technology Fund.

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

Year ending September 30, 2008	Rental Payments
2009	$ 814
2010	442
2011	264
2012	70
2013	17
Total minimum future lease payments	1,607
Less: Amount representing interest	(117)
Present value of net minimum lease payments	$1,490

The City's investment in equipment under capital lease arrangements as of September 30, 2008 is $3,649,000.

Through fiscal 2008, the City was also committed under various leases for data processing, office equipment and machinery. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2008, amounted to $2,000.

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 2008 were approximately $251,618.

15. DISPUTE SETTLEMENT AGREEMENT

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

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

Year	Amount
2008	$ 800,000
2009	800,000
2010	900,000
2011	1,000,000
2012	1,000,000
2013 to 2017	5,000,000
2018 to 2022	5,000,000
2023 to 2024	2,000,000
	16,500,000
Less Discount	5,741,000
	$10,759,000

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

16. CAPITAL LEASE

A lease agreement was executed on June 23, 1992 between the Texas Rangers, Ltd. (the Rangers) and the ASFDA for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of $2,000,000 per year for the 30-year term of the lease. Upon retirement or defeasance of the debt, 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 in the component unit, ASFDA. Accordingly, a lease receivable has been established representing the future expected lease proceeds and the capital assets have been removed from the accounts of the ASFDA. As of September 30, 2008 the lease receivable balance was $17,828,912.

Minimum future rentals are as follows:

September 30	
2009	$ 2,000,000
2010	2,000,000
2011	2,000,000
2012	2,000,000
2013	2,000,000
2014-2018	10,000,000
2019-2023	10,000,000
2024	1,055,556
	31,055,556
Less Discount	13,226,644
Minimum future lease rentals	$17,828,912

17. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2008, for all discretely presented component units is as follows (amounts in thousands):

Condensed Schedule of Net Assets

	Arlington Sports Facilities Development Authority, Inc.	Arlington Tomorrow Foundation	Housing Authority	Other Discretely Presented Component Units	Total Discretely Presented Component Units
Current and other assets	$45,132	$47,466	$ 7,630	$870	$101,098
Capital assets	1,151	-	523	210	1,884
Total assets	46,283	47,466	8,153	1,080	102,982
Long-term liabilities outstanding	239	-	-	-	239
Other liabilities	17,254	10,701	1,045	88	29,088
Total liabilities	17,493	10,701	1,045	88	29,327
Net assets:					
Invested in capital assets, net of related debt	1,151	-	523	193	1,867
Restricted	16,061	36,765	-	-	52,826
Unrestricted	11,578	-	6,585	799	18,962
Total net assets	$28,790	$36,765	$7,108	$992	$73,655

Condensed Schedule of Activities

	Arlington Sports Facilities Development Authority, Inc.	Arlington Tomorrow Foundation	Housing Authority	Other Discretely Presented Component Units	Total Discretely Presented Component Units
Expenses	$ 2,983	$1,207	$26,738	$3,422	$34,350
Program Revenues:					
Charges for services	2,520	-	-	3,488	6,008
Operating grants and contributions	-	-	23,089	288	23,377
Capital grants and Contributions	-	25,341	-	-	25,341
Net Program (Expense) Revenue	(463)	24,134	(3,649)	354	20,376
Interest Revenues	1,980	1,582	146	21	3,729
Gas lease	-	11,044	-	-	11,044
Other NonTax General Revenues	92	5	288	-	385
Change in Net Assets	1,609	36,765	(3,215)	375	35,534
Net Assets, October 1,	27,181	-	10,323	617	38,121
Net Assets, September 30	$28,790	$36,765	$ 7,108	$ 992	$73,655

Conduit Debt - Mortgage Revenue Bonds

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

At September 30, 2008, outstanding conduit debt was as follows:

Bond Series	Original Issue Amount	Outstanding Amount
Arlington 03B	$ 12,375,000	$ 3,837,999
Arlington 06	12,857,000	12,346,312
Total	$25,232,000	$16,184,311

18. SUBSEQUENT EVENTS

In November 2008, the City issued $112.2 million of Special Tax Revenue Bonds, Series 2008 of with an interest rate range of 5.0 to 5.5 percent and serial maturities through FY 2027 to refund $104,265,000 of the City's outstanding Dallas Cowboys Complex Tax-Exempt Special Tax Bonds, Series 2005B, which are Variable Rate Demand Bonds. As part of the refinancing the City terminated $104,265,000 of the swap which resulted in a swap termination payment from the City of $5,195,000. The termination payment was paid out of available stadium debt service funds. In February, 2009 the Series 2005B bonds which had been put to DEPFA Bank were all remarketed. This extinguishes the accelerated amortization which starts on the first debt service payment date after the one year anniversary of the put.

Effects of the downturn in the economy are starting to affect the City's revenues. Sales tax revenues are showing weakening trends in early 2009. Building inspection fees are also below 2009 projections. These revenue shortfalls are causing budgetary challenges which will be addressed through mid-year spending cuts.

CITY OF ARLINGTON, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008 (Unaudited)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Budgeted Amounts		Actual Amounts			
	Original	**Final**	**Actual**	**Adjustments to Budgetary Basis**	**Actual on Budgetary Basis**	**Variance with Final Budget-Positive (Negative)**
REVENUES						
Taxes	$ 129,056	$ 129,056	$ 125,301	$ 3,235	$ 128,536	$ (520)
Licenses and permits	5,103	5,103	4,650	-	4,650	(453)
Utility franchise fees	29,581	29,581	25,994	5,005	30,999	1,418
Fines and forfeitures	9,664	9,664	10,515	-	10,515	851
Leases, rents and concessions	7,306	7,306	7,363	800	8,163	857
Service charges	9,009	9,009	4,386	4,414	8,800	(209)
Interest revenue	3,340	3,340	3,325	-	3,325	(15)
Other revenue	20	20	845	(800)	45	25
Net increase (decrease) in the fair value of investments	-	-	(26)	26	-	-
Total Revenues	193,079	193,079	182,353	12,680	195,033	1,954
EXPENDITURES						
Current-						
General government	37,116	37,281	34,776	937	35,713	1,568
Public safety	112,273	112,655	114,968	590	115,558	(2,903)
Public works	30,734	32,115	26,384	4,194	30,578	1,537
Public health	1,371	1,371	1,594	(6)	1,588	(217)
Parks and recreation	13,386	13,386	12,991	146	13,137	249
Capital Outlay	-	-	322	(322)	-	-
Total Expenditures	194,880	196,808	191,035	5,539	196,574	234
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(1,801)	(3,729)	(8,682)	7,141	(1,541)	2,188
OTHER FINANCING SOURCES (USES)						
Capital lease proceeds	-	-	322	(322)	-	-
Transfers in	8,507	8,507	15,956	(7,468)	8,488	(19)
Transfers out	(6,684)	(6,684)	(11,753)	4,889	(6,864)	(180)
Total Other Financing Sources (Uses)	1,823	1,823	4,525	(2,901)	1,624	(199)
Net Change In Fund Balances	22	(1,906)	(4,157)	4,240	83	1,989
Fund Balances, October 1	60,346	60,346	60,346	-	60,346	-
Fund Balances, September 30	$ 60,368	$ 58,440	$ 56,189	$ 4,240	$ 60,429	$ 1,989

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - TMRS
LAST THREE FISCAL YEARS (Unaudited)

The following table discloses certain three-year historical trend information presenting the City's progress in accumulating sufficient assets to pay benefits when due (amounts expressed in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Unit Credit	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/05	$334,823	$447,440	$(112,617)	74.8%	$113,823	98.9%
12/31/06	$342,766	$466,521	$(123,755)	73.5%	$128,574	96.3%
12/31/07	$348,785	$569,404	$(220,619)	61.3%	$130,958	168.5%

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - PART-TIME DEFERRED INCOME TRUST
LAST THREE FISCAL YEARS (Unaudited)

The following table discloses certain three-year historical trend information (amounts expressed in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess Funded AAL (EAAL)	Funded Percent	Annual Covered Payroll	EAAL as a Percentage of Covered Payroll
7/1/04	$ 1,039	$ 914	$125	113.7%	$2,415	5.2%
7/1/05	$1,193	$ 985	$208	121.1%	$2,487	8.4%
7/1/07	$1,270	$1,056	$214	120.3%	$2,558	8.4%

An actuarial valuation was not performed as of 7/1/2006 or 7/1/2008

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - DISABILITY INCOME PLAN
LAST THREE FISCAL YEARS (Unaudited)

The following table discloses certain three-year historical trend information (amounts expressed in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/02	$288	$3,104	9.3%	$(2,816)	$104,055	2.7%
7/1/05	$286	$2,960	9.7%	$(2,674)	$102,013	2.6%
7/1/07	$349	$2,633	13.3%	$(2,284)	$105,480	2.2%

An actuarial valuation was not performed as of 7/1/2003 or 7/1/2006 or 7/1/2008.

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTHCARE PLAN
LAST FISCAL YEAR (Unaudited)

The following table discloses certain historical trend information (amounts expressed in millions, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/07	$ -	$101.8	0%	($101.8)	$138.0	73.7%

An actuarial valuation was not performed as of 1/1/2005 or 1/1/2006.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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[Form of Bond Counsel Opinion]

[Date]

$13,760,000
CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS
SERIES 2009

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 follows:

> CITY OF ARLINGTON, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2009, dated April 15, 2009.
>
> The Bonds mature, bear interest 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, and the pricing certificate authorized therein, (together, the "Ordinance").

WE HAVE represented the Issuer as 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 City; an escrow agreement (the "Escrow Agreement") between the City and Wells Fargo Bank, 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 bonds being refunded (the "Refunded Bonds") 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 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; and

(B) The Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the Issuer's water and wastewater system, as defined and described in the Ordinance.

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds 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 of the owners thereof for federal income tax purposes under existing law; and

(2) The Bonds are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (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 will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) 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 Underwriters of the Bonds with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the Underwriters, 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 receipt or accrual of interest on, or acquisition, ownership 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, taxpayers owning an interest in a FASIT that holds 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 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 Internal Revenue Service (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 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.

Financial Advisory Services
Provided By

ESTRADA HINOJOSA
INVESTMENT BANKERS