OFFICIAL STATEMENT DATED JUNE 5, 2012

NEW ISSUE-Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aa2"
Standard & Poor's "AA+"
See "OTHER INFORMATION – Ratings"

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

$16,640,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds, Series 2012

Dated: June 1, 2012 **Due: June 1, as shown on inside of cover page**
Interest to accrue from date of delivery.

PAYMENT TERMS…Interest on the $16,640,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2012 (the "Bonds") will accrue from the date of their delivery to the Initial Purchaser (the "Delivery Date") and will be payable on June 1 and December 1 of each year commencing December 1, 2012 until maturity or prior redemption, 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 Bank of New York Mellon N.A., Dallas, 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 1502, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance passed by the City Council (the "Ordinance"). The Bonds 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 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…The proceeds from the sale of the Bonds are being used to provide funds to (i) improve and extend the System; and (ii) to pay costs of issuance associated with the sale of the Bonds.

SEPARATE ISSUES….. The Bonds are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2012A" (the "2012A Bonds") and the "City of Arlington, Texas Permanent Improvement Refunding Bonds, Series 2012B" (the "2012B Bonds"). The Bonds and the 2012A Bonds and the 2012B Bonds are separate and distinct securities offerings being issued and sold independently. The Bonds, 2012A Bonds and the 2012B Bonds are separate issues and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

OPTIONAL REDEMPTION…The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 1, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

LEGALITY…The Bonds are offered for delivery when, as and if issued and received by the Purchasers and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY…It is expected that the Bonds will be available for delivery through DTC on June 28, 2012.

Maturity Schedule

(June 1) Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP [1]	(June 1) Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP [1]
2013	$ 830,000	3.000%	0.400%	04184KJH9	2023	$ 830,000	2.500%	2.600%	04184KJT3
2014	835,000	4.000%	0.580%	04184KJJ5	2024	830,000	3.000%	2.800%[2]	04184KJU0
2015	835,000	2.000%	0.700%	04184KJK2	2025	830,000	4.000%	2.900%[2]	04184KJV8
2016	835,000	2.000%	0.850%	04184KJL0	2026	830,000	3.000%	3.050%	04184KJW6
2017	835,000	3.000%	1.100%	04184KJM8	2027	830,000	3.100%	3.200%	04184KJX4
2018	835,000	3.000%	1.450%	04184KJN6	2028	830,000	3.200%	3.300%	04184KJY2
2019	835,000	4.000%	1.650%	04184KJP1	2029	830,000	3.250%	3.400%	04184KJZ9
2020	835,000	3.000%	1.880%	04184KJQ9	2030	830,000	3.375%	3.500%	04184KKA2
2021	835,000	2.250%	2.100%	04184KJR7	2031	830,000	3.500%	3.580%	04184KKB0
2022	830,000	2.500%	2.230%	04184KJS5	2032	830,000	3.500%	3.630%	04184KKC8

(Interest to accrue from date of initial delivery)

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

(2) Priced to the June 1, 2022 optional redemption date.

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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 Purchasers. 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 City. 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 nor its Financial Advisors 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 HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OF QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

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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 $16,640,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2012, dated June 1, 2012, are issued as serial bonds maturing on June 1 in each of the years 2013 through 2032. (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the delivery date and will be paid on December 1, 2012, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption. (See "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").

AUTHORITY FOR ISSUANCE............. The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Chapter 1502, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance (the "Ordinance") passed by the City Council (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 – 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.**

OPTIONAL REDEMPTION .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 1, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

TAX EXEMPTION............................. In the opinion of Bond Counsel, under the existing law the interest on the Bonds will be excludable from gross income for federal income tax purposes, 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........................... The proceeds from the sale of the Bonds are being used to provide funds to (i) improve and extend the System; and (ii) to pay costs of issuance associated with the sale of the Bonds.

RATINGS .... The Bonds have been rated "Aa2" by Moody's Investors Service, "AA+" by Standard and Poor's and "AAA" by Fitch Ratings. The City's presently outstanding System revenue supported debt has underlying ratings of "Aa2" by Moody's, "AA+" by S&P and "AAA" by Fitch. (see "OTHER INFORMATION – 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.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated Population	Average Daily Pumpage [1]	Maximum Daily Water Pumpage [1]	Total Water Pumped [2]	Net Revenue Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt Service
2007	364,300	51.52	86.04	18,434	$ 32,171,000	$ 13,139,000	2.45X
2008	369,150	57.23	109.49	20,888	49,682,000	12,422,000	4.00X
2009	370,450	59.54	115.20	21,734	44,708,000	13,926,000	3.21X
2010	365,438 [3]	55.44	102.24	20,236	48,750,000	13,990,000	3.48X
2011	372,543	64.25	114.69	23,451	45,242,000	14,804,000	3.06X

(1) Listed in millions of gallons per day.
(2) Listed in millions of gallons.
(3) 2010 Census population. Decrease in population due to overestimation in non-census years.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

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

(1) Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.
(2) Served as Council member from May 1999 to May 2003.
(3) Was elected May, 2012. Will serve at-large for one year. The at-large seat will be up for election again in May 2013.

SELECTED ADMINISTRATIVE STAFF

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

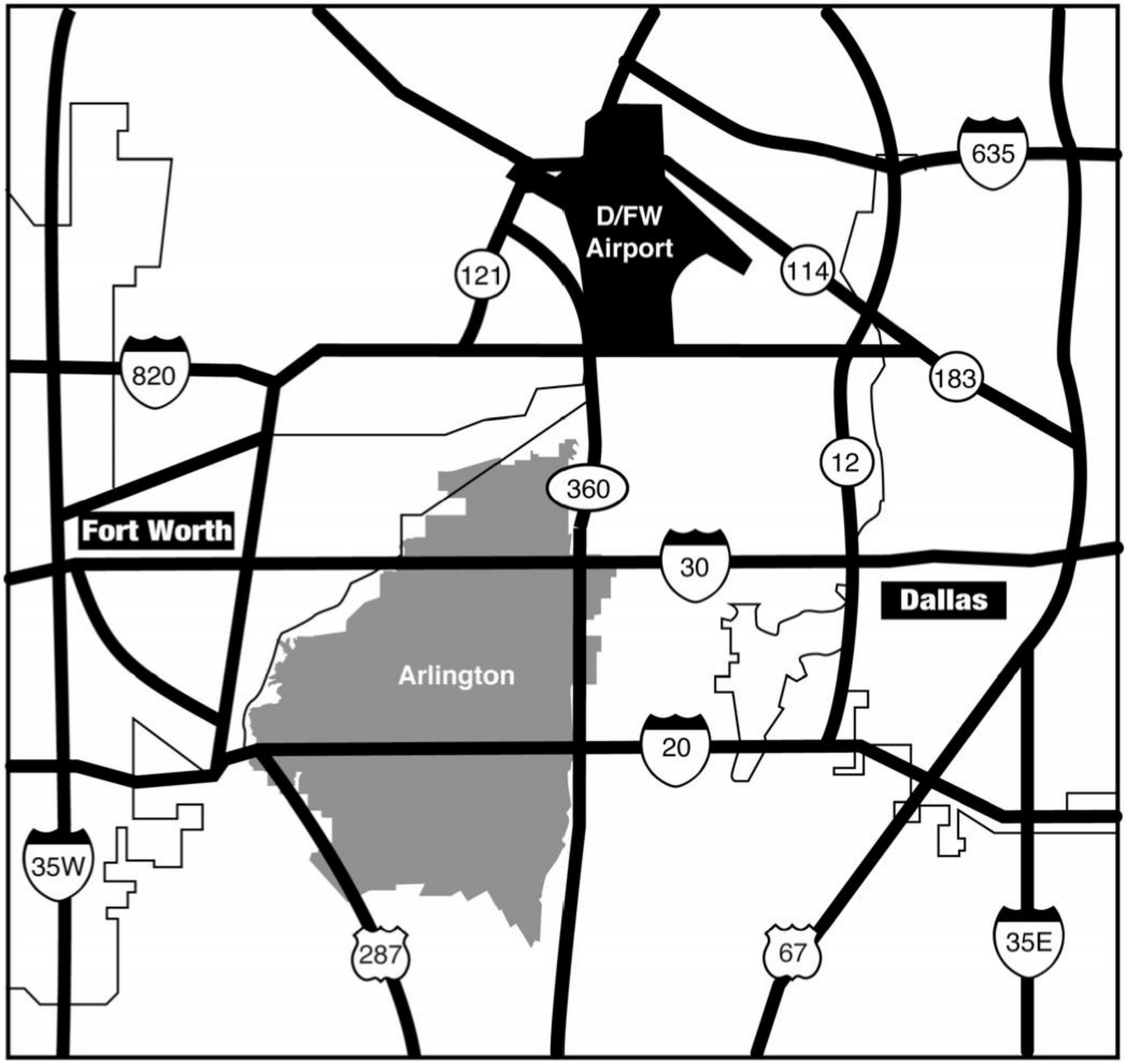
CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors	Grant Thronton L.L.P., Dallas, Texas
Bond Counsel	Bracewell & Giuliani LLP, Dallas Texas
Financial Advisor	Estrada Hinojosa & Company, Inc., Dallas, Texas

For additional information regarding the City, please contact:

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

$16,640,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds, Series 2012

INTRODUCTION

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of $16,640,000 City of Arlington, Texas Water and Wastewater System Revenue Bonds, Series 2012 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined) authorizing the issuance of the Bonds, except as otherwise indicated herein. Reference is made to "Selected Provisions of the Ordinance" which contains defined terms and selected provisions of the 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 2010 census population of 365,438. The City's Community Development and Planning Department estimates the current population of the City to be 368,854 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 99.7 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 147,488 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 1,294 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…The proceeds from the sale of the Bonds are being used to provide funds to (i) improve and extend the System; and (ii) to pay costs of issuance associated with the sale of the Bonds.

SOURCES AND USES OF PROCEEDS…Proceeds from the sale of the Bonds will be applied approximately as follows:

Sources:		
Par amount of the Bonds	$	16,640,000.00
Net Premium		524,238.55
Total Sources of Funds	$	17,164,238.55
Uses:		
Deposit to Construction Fund	$	16,840,000.00
Costs of Issuance		146,112.00
Underwriters' Discount		178,126.55
Total Uses of Funds	$	17,164,238.55

THE BONDS

DESCRIPTION OF THE BONDS… The Bonds are dated June 1, 2012 (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 delivery date and 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, 2012 until maturity or prior redemption. 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 1502, Texas Government Code, as amended, Article XIII, Section 1 of the City's Home Rule Charter and an ordinance (the "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").

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 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
Water & Wastewater System Revenue Refunding Bonds, Series 2003	2/15/2003	$ 2,020,000
Water & Wastewater System Revenue Bonds, Series 2004	2/15/2004	8,680,000
Water & Wastewater System Revenue Bonds, Series 2005	3/1/2005	10,735,000
Water & Wastewater System Revenue Bonds, Series 2007	7/15/2007	18,000,000
Water & Wastewater System Revenue Bonds, Series 2008	6/15/2008	30,400,000
Water & Wastewater System Revenue Refunding Bonds, Series 2009	4/15/2009	11,880,000
Water & Wastewater System Revenue and Refunding Bonds, Series 2010	6/15/2010	19,315,000
Water & Wastewater System Revenue Bonds, Series 2010	11/19/2010	12,500,000

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. As of September 30, 2011 the Debt Service Reserve Fund balance is $8,400,638. 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 ORDINANCE - Various Funds.")

OPTIONAL REDEMPTION…The City has reserved the right at its option to redeem the Bonds scheduled to mature on and after June 1, 2023 prior to their scheduled maturities, in whole or in part, on June 1, 2022, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amounts of $5,000 or any integral multiple thereof. If less than all of the Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other method that results in random selection, which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION…Not less than 30 days prior to any redemption date, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each Owner of a Bond to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption if such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

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

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

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

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

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 Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Purchasers 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 a Standard & Poor's highest rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 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 Section 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 Purchasers.

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 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, printed certificates will be issued to the Owners and thereafter, 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 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 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 Bank of New York Mellon N.A., Dallas, 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 Ordinance; or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance. The 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 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 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 Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the 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 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 water treatment 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 south PBWTP has a present ozonated treatment capacity of 75 million gallons per day (MGD). At this time, there are no plans to expand the PBWTP. However, land is available at the site to accommodate an additional 100 MGD capacity treatment facility in the future, if needed. The north PBWTP has a capacity of 34 MGD and utilizes a conventional treatment process.

The 1980's population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JKWTP). 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 has recently completed an expansion project, expanding the rated treatment capacity to 97.5 MGD from 65 MGD. 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 has three pressure planes, referred to as the Upper pressure plane, West pressure plane, and Lower pressure plane. JKWTP supplies the Upper and West pressure planes. The more efficient John Kubala, Water Treatment Plant is also normally used to supply a portion of the Lower pressure plane via transfer valves between the two pressure zones. The Pierce-Burch Water Treatment Plant supplies the remaining volume necessary to meet citywide demand in the Lower pressure plane. With this supply strategy, the JKWTP normally supplies all of the water required by the Upper and West pressure planes, and approximately 50 percent of the supply to the Lower pressure plane. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are eleven elevated storage tanks and nine ground storage tanks with a combined capacity of 50.7 million gallons. Tierra Verde Tank is the 11th elevated tank that came on line November 2010.

The City's water distribution system is fully metered and consists of 1,558 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)
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
2009	59.54	115.20
2010	55.44	102.24
2011	64.25	114.69

Source: City Water Utilities Department.

WATER SUPPLY… The Tarrant Regional Water District is the primary supplier of raw water used by 65 municipal and non-municipal entities located both within and outside of Tarrant County. Among the major customers of the District 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, 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 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 Texas Water Development Board (TWDB) Water Infrastructure Fund established to finance implementation of projects identified in the 2007 State Water Plan.

In March 2009, TRWD issued $69,535,000 in bonds to refund $16,895,000 of the Series 1999 Water and Revenue Refunding and Improvement Bonds and to pay for construction of a parallel pipeline segment; the design of additional pipeline and pumping facilities; the construction of a balancing reservoir on the Eagle Mountain Connection pipeline; major repairs, replacements and additions of valves, vaults, pumps, variable frequency drives, switchgear, aeration facilities, and tank recoating related to the water transmission system; expansion and rehabilitation of chemical and dechlorination facilities related to the District's water transmission system; dam stability analysis and remediation, water transportation improvements, including log jam removal; design of hydro generation facilities at Lake Arlington; development of new water resources, including costs related to the acquisition of out of state water, and associated legal, engineering and consultation costs; other design, construction, improvements and repairs and studies and plans for the District's Water System.

In 2010, TRWD had three bond issues, 2010, 2010A and 2010B. The 2010 issue for $89,250,000 was issued for engineering and initial right of way costs related to additional pipeline and pumping facilities; engineering and construction of the build-out phase of the

Richland-Chambers wetlands facilities; land and right-of-way for construction of the Cedar Creek wetlands; construction of hydro generation facilities at Lake Arlington; development of new water resources, including costs related to the acquisition of out of state water, and associated legal, engineering, and consulting costs; other design, construction, improvements and repairs and studies and plans for the District's Water System. The 2010A, ($17,835,000) and 2010B, ($83,785,000) series were issued to support development costs related to the Integrated Pipeline Project (IPL) and were issued as a part of the Texas Water Development Board (TWDB) Water Infrastructure Fund established to finance implementation of projects identified in the 2007 State Water Plan.. The IPL Project is an integrated water delivery transmission system that will deliver water supply from Lake Palestine Cedar Creek and Richland-Chambers Reservoirs integrated with TRWD's existing pipelines and provide flexibility in water sources and delivery as well as quick response to fluctuating customer demands. The IPL Project consists of 150 miles of pipeline, three new lake pump stations, and three new booster pump stations. The City of Dallas is funding a portion of the cost to design, construct and operate the IPL in proportion to delivery of Dallas water supply from Lake Palestine.

In January 2012, the TRWD board approved a resolution authorizing the issuance, sale, and delivery of the Tarrant Regional Water District, a water control and improvement district, water transmission facilities contract revenue bonds (City of Dallas Project) and revenue refunding and improvement bonds for TRWD, both are series 2012, pledging revenues for the payment of the bonds, approving the official statement, and authorizing other instruments and procedures relating thereto. Funding on these bonds occured in March 2012.

Tarrant Regional Water District estimates that the existing and permitted water supply system has adequate water to meet its customers' projected water requirements through the year 2030. TRWD continues to participate in statewide and regional water supply planning 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, and 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 2011-2012 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,554,847, which results in a rate of approximately 87.291 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 requirement to make such payments from its revenues to 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 and execute drought contingency measures.

TRWD updated its Water Conservation and Drought Contingency Plans in May 2005, in accordance with the Texas Commission of Environmental Quality (TCEQ) directives. The plans were revisited and, with guidance from major customers, revised in May 2007 following the drought that 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.

Arlington Water Utilities updated its Drought Contingency Plan in 2008. 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, with concurrence of the TRWD Board of Directors, finds that conditions warrant the declaration of a drought stage.

The summer of 2011 proved to be one of the hottest and driest on record for much of the State of Texas. Per the Drought Contingency Plan, when TRWD reservoirs dropped to 75% capacity in August, Stage 1 drought restrictions were implemented. A mandatory maximum two-day watering schedule was enforced and the goal was to reduce water consumption by 5%. Water consumption dropped after the Stage 1 declaration and the reduced water consumption goals were met locally in Arlington and regionally with TRWD. Stage 1 drought restrictions work as intended and the City did not have any irreparable system supply problems before or after the restrictions.

The City coordinated with TRWD and its customer cities to take a regional approach in updating its Drought Contingency Plan in April of 2008 and another update, per TCEQ requirements, will occur by April of 2013. An updated Conservation Plan was adopted by the Arlington City Council in April 2009. Because of this proactive approach to addressing drought conditions and managing emergency demand, the City does not anticipate, and did not recently experience with implementation of the Drought Contingency Plan, 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, 2007, through September 30, 2011.

	Average Daily Consumption (MGD)				
Category	**2011**	**2010**	**2009**	**2008**	**2007**
Residential	30.70	25.04	27.10	27.97	23.81
Commercial	10.60	9.98	10.33	10.77	10.49
Fire lines, Sprinkers	6.41	4.61	5.49	5.61	4.19
Apartment Units	8.10	7.88	8.18	8.58	8.40
Mobile Homes, Condominiums, Townhouses	0.50	0.60	0.60	0.68	0.58
Total	56.31	48.11	51.70	53.61	47.47

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, 2007, through September 30, 2011.

	Number of Units Served				
Category	**2011**	**2008**	**2009**	**2008**	**2007**
Residential	92,594	92,423	92,016	91,704	90,978
Commercial	4,922	4,903	4,919	3,945	3,725
Fire lines, Sprinkers	966	960	1,010	2,050	2,202
Apartment Units	46,917	46,845	47,686	47,108	45,069
Mobile Homes, Condominiums, Townhouses	2,089	2,181	2,801	3,134	4,077
Total	147,488	147,312	148,432	147,941	146,051

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, 2011. 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 10.01 percent of the System's water sales, were as follows:

	Consumption in 1,000 Gallons	Billing
Arlington Independent School District	320,896	$1,282,565
Chesapeake Operating	310,627	1,606,550
University of Texas at Arlington	303,326	1,039,832
City of Arlington	284,709	1,297,131
EUSB/General Motors	267,039	654,524
Carrizo Oil and Gas	138,209	683,306
Cowboys Stadium	105,639	382,049
Mansfield Independent School District	97,412	429,725
Six Flags Park	96,912	276,970
Hurricane Harbor	79,433	199,034
Total	2,004,202	$7,851,686

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
2007	103,689	18,434	51.52	86.04	487	1.67
2008	105,947	20,888	57.23	109.49	540	1.87
2009	105,263	21,734	59.54	115.20	566	1.94
2010	105,638	20,236	55.44	102.24	525	1.84
2011	106,021	23,451	64.25	114.69	606	1.79

Source: City Water Utilities Department.

WASTEWATER FACILITIES… The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,294 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 the Trinity River Authority's (TRA) Central Regional Wastewater System (CRWS). The City's annual volume of contributing flow amounts to approximately 28.2 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 Environmental Protection Agency (EPA).

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

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	Wastewater Treated (Millions of Gallons)				
	2011	**2010**	**2009**	**2008**	**2007**
TRA CRWS Plant	13,329 [(1)]	13,293	13,460	14,391	14,940

[(1)] Unaudited

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.

In April 2007, an 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. 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, and two additional issuances of $90 million in February 2008 and March 2009 to complete the objectives of the updated capital improvement plan. An additional Texas Water Development Board bond of $127,005,000 was issued in 2010, and in June 2011, the Authority issued $69,280,000 in Revenue Refunding Bonds, Series 2011 Bonds, for refunding the Series 2001 Bonds, producing a total debt service savings of $5,046,248 through the life of the bonds. Other bond issues are scheduled for 2012, 2013 and 2014 to continue process and collection system improvements. The timing and amounts of these bonds will be determined at a later date.

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 has 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 the Platinum Award for fiscal year 2007, 2008, 2009 and 2010 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 System.

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, 2011, the volume of contributing flow by the City is estimated to average 39.510 MGD, which amounts to approximately 28.2 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 2012 is $24,026,950.

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.

TABLE 1 - DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Bonds and the Outstanding Bonds of the Water and Wastewater System.

Fiscal Year Ended 9/30	Existing Debt Service			Existing Texas Water Development Board Debt Service [1]			Water & Wastewater Revenue Bonds, Series 2012 [2]			Total Debt Service Requirements	Fiscal Year Ended 9/30	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total			
2013	$ 7,255,000	$ 2,839,660	$ 10,094,660	$ 2,595,000	$ 897,913	$ 3,492,913	$ 830,000	$ 470,746	$ 1,300,746	$ 14,888,319	2013	
2014	6,775,000	2,553,740	9,328,740	2,595,000	866,563	3,461,563	835,000	484,015	1,319,015	14,109,318	2014	
2015	6,720,000	2,277,678	8,997,678	2,595,000	832,363	3,427,363	835,000	450,615	1,285,615	13,710,656	2015	
2016	6,170,000	2,007,388	8,177,388	2,595,000	795,313	3,390,313	835,000	433,915	1,268,915	12,836,616	2016	
2017	5,550,000	1,751,233	7,301,233	2,595,000	754,463	3,349,463	835,000	417,215	1,252,215	11,902,911	2017	39%
2018	5,530,000	1,518,263	7,048,263	2,595,000	711,713	3,306,713	835,000	392,165	1,227,165	11,582,141	2018	
2019	5,115,000	1,281,303	6,396,303	2,595,000	664,723	3,259,723	835,000	367,115	1,202,115	10,858,141	2019	
2020	5,185,000	1,085,334	6,270,334	2,595,000	613,493	3,208,493	835,000	333,715	1,168,715	10,647,542	2020	
2021	4,130,000	872,354	5,002,354	2,595,000	557,675	3,152,675	835,000	308,665	1,143,665	9,298,694	2021	
2022	3,370,000	686,386	4,056,386	2,595,000	498,915	3,093,915	830,000	289,878	1,119,878	8,270,179	2022	70%
2023	3,370,000	541,386	3,911,386	2,595,000	438,163	3,033,163	830,000	269,128	1,099,128	8,043,676	2023	
2024	2,580,000	394,875	2,974,875	2,595,000	374,815	2,969,815	830,000	248,378	1,078,378	7,023,068	2024	
2025	1,690,000	281,225	1,971,225	2,595,000	307,575	2,902,575	830,000	223,478	1,053,478	5,927,278	2025	
2026	1,690,000	207,625	1,897,625	2,595,000	238,690	2,833,690	830,000	190,278	1,020,278	5,751,593	2026	
2027	1,690,000	134,025	1,824,025	2,595,000	168,160	2,763,160	830,000	165,378	995,378	5,582,563	2027	92%
2028	490,000	60,425	550,425	2,595,000	95,985	2,690,985	830,000	139,648	969,648	4,211,058	2028	
2029	490,000	40,825	530,825	690,000	23,115	713,115	830,000	113,088	943,088	2,187,028	2029	
2030	485,000	20,613	505,613	690,000	11,730	701,730	830,000	86,113	916,113	2,123,456	2030	
2031	-	-	-	-	-	-	830,000	58,100	888,100	888,100	2031	
2032	-	-	-	-	-	-	830,000	29,050	859,050	859,050	2032	100%
	$ 68,285,000	$ 18,554,338	$ 86,839,338	$ 42,900,000	$ 8,851,363	$ 51,751,363	$ 16,640,000	$ 5,470,679	$ 22,110,679	$ 160,701,379		

[1] Debt service is overstated. The City was authorized $38,000,000 and $13,885,000 through the Texas Water Development Board from the Water and Wastewater System Revenue Bonds, Series 2008 and Water and Wastewater System Revenue Bonds, Series 2010, consecutively, to be drawn down in installments. To date, the City has received $34,065,000 and $5,054,000 in installments from the 2008 and 2010 Bonds. The City has $3,935,000 and $8,831,000 remaining from the 2008 and 2010 Bonds, to be drawn down.
[2] Interest on the Bonds has been calculated at the rates shown on the inside cover page hereof. Average life of the issue is 10.413 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	Planned Capital Expenditures	Texas Water Development Board	Planned Bond Sale (2)	Other Capital Financial Sources
2012	$ 44,183,792	$ 11,503,792 (1)	$ 16,840,000	$ 18,580,000
2013	33,835,000	7,200,000 (3)	13,170,000	13,465,000
2014	29,275,000	-	15,300,000	13,975,000

(1) Remaining proceeds of the Texas Water Development Board Clean Water State Revolving Fund loan in 2011.
(2) 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.
(3) To be issued in late 2012.

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 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, 2011

Meter Size	Water	Wastewater
3/4" (<2,000 gal)	$ 5.00	$ 4.20
3/4" (>2,000 gal)	8.57	8.05
1"	15.00	14.09
1 1/2"	34.28	32.20
2"	59.99	56.35
3"	138.77	82.00
4"	222.75	142.20
6"	517.89	324.78
8"	811.55	512.09
10"	1,219.05	768.10

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE
Effective October 1, 2011

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0-2	$ 1.42	$ 3.22
3-10	2.02	3.22
11-15	2.98	3.22
16-29	3.41	3.22
≥ 30	4.08	3.22

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	$ 2.08	$ 3.22
≥ 16	2.38	3.22

IRRIGATION

Usage (1,000 gal)	Rate
0-29	$ 3.41
≥ 30	4.08

CONSTRUCTION

Usage (1,000 gal)	Rate
0-99	$ 4.75
≥ 100	6.00

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
Average Residential Customer
Using 10,000 Gallons Water and 6,000 Gallons Wastewater

Fiscal Year	Water	Wastewater	Total
2003	0.0	0.0	0.0
2004	(8.4)	48.5	10.7
2005	2.6	3.4	2.9
2006	0.0	4.1	1.9
2007	(1.1)	10.2	4.2
2008	6.6	3.1	4.8
2009	10.2	9.5	9.9
2010	0.6	2.7	1.6
2011	2.8	3.5	3.2
2012	0.1	1.8	0.9

Source: City Water Utilities Department.

OPERATING RESERVE… The current policy, authorized by the City Council in September 2011, requires the operating reserve to equal a minimum of 60 days of the proposed operating and maintenance expense budget, excluding debt service. The reserve fund balance as of September 30, 2011, was $13,972,129, which equals 60 days of operating and maintenance expense.

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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 respective comprehensive annual financial reports. 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 9/30, (000's)				
	2011	**2010**	**2009**	**2008**	**2007**
Assets					
Cash and cash equivalents	$13,033	$12,452	$12,077	$12,231	$12,231
Receivable (net allowances for uncollectibles)	17,997	15,875	14,401	13,931	12,909
Inventory of Supplis, at cost	461	420	460	496	444
Restricted assets					
Bond Contingency	12,198	11,497	11,847	9,838	10,713
Capital/Bond contruction	68,690	46,054	37,397	35,712	30,576
Meter deposits	4,904	4,853	4,888	4,880	4,725
Property, plant and equipment less accumulated depreciation	558,815	553,386	536,132	512,669	498,463
Total Assets	$676,098	$644,537	$617,202	$589,757	$570,061
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$3,311	$3,387	$5,077	$4,965	$4,837
Payable from restricted assets	11,650	12,628	15,138	15,719	12,933
Accrued compensated absences					
Current	147	105	147	137	113
Non Current/Long Term	1,311	1,638	1,698	1,779	1,775
Revenue bonds, net of discount, payable from unrestricted assets	113,287	106,981	97,077	89,347	95,819
Total Liabilities	$129,706	$124,739	$119,137	$111,947	$115,477
Net Assets/Equity					
Invested in Capital Assets	$501,255	$487,100	$470,889	$453,210	$428,961
Restricted	19,706	10,140	10,310	9,753	9,097
Unrestricted	25,431	22,558	16,866	14,847	16,526
Total Assets/Equity	$546,392	$519,798	$498,065	$477,810	$454,584
Total Liabilities and Net Assets/Equity	$676,098	$644,537	$617,202	$589,757	$570,061

TABLE 3 - HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE

	Fiscal Years Ended 9/30, (000's)				
	2011	**2010**	**2009**	**2008**	**2007**
Revenues					
Water Sales	$70,339	$57,459	$57,685	$54,312	$43,693
Wastewater Service	48,076	44,890	45,749	42,208	40,246
Interest Income	565	889	120	3,388	2,744
Other Income	4,543	5,451	4,790	5,804	4,847
Total Revenues	$123,523	$108,689	$108,344	$105,712	$91,530
Expenses					
Labor Costs	$13,039	$13,085	$13,464	$12,959	$12,917
Supplies	3,264	2,955	4,077	3,576	2,356
Maintenance	3,487	2,780	3,300	2,779	2,493
Water Supply (The District)	16,531	13,676	13,082	11,782	12,549
Wastewater Treatment Contracts	23,987	20,873	22,126	19,606	19,364
Utilities	3,088	3,162	3,181	3,562	3,155
Other Expenses [(1)]	15,321	4,199	4,177	3,962	8,210
Total Operating Expenses Before Depreciation	$78,717	$60,730	$63,407	$58,226	$61,044
Net Revenues of the System	$44,806	$47,959	$44,937	$47,486	$30,486
Interest During Construction Included Above	436	791	(229)	2,196	1,685
Net Revenues Available for Debt Service	$45,242	$48,750	$44,708	$49,682	$32,171
Debt Service Paid [(2)]	$14,804	$13,990	$13,926	$12,422	$13,139
Debt Service Coverage (times)	3.06 x	3.48 x	3.21 x	4.00 x	2.45 x

(1) Beginning in 2008 Franchise Fees were 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 9/30, (000's)				
	2011	**2010**	**2009**	**2008**	**2007**
Gross Operating Revenues	$123,523	$108,689	$108,344	$105,712	$91,530
Interest Revenues (Excluding Interest During Contruction)	436	791	(229)	2,196	1,685
Operating Expenses Before Depreciation [(1)]	78,717	60,730	63,407	58,226	61,044
Net Revenues Available for Debt Service	$45,242	$48,750	$44,708	$49,682	$32,171
Average Annual Debt Service	7,013	7,013	7,119	6,486	6,659
Average Annual Debt Service Coverage (times)	6.45 x	6.95 x	6.28 x	7.66 x	4.83 x
Accounts Receivable to Gross Operating Revenues (%)	14.57%	14.61%	13.31%	13.61%	14.54%
Unrestricted Cash to Unrestricted Current Liabilities (times)	3.02 x	3.42 x	3.20 x	3.73 x	2.24 x
Unrestricted Current Assets to Unrestricted Current Liabilities (time)	9.11 x	8.23 x	5.16 x	5.23 x	5.17 x
Long-term debt to Net Plant (%)	19%	20%	17%	17%	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) a) where the funds are invested by an investing entity through: (i) a broker that has its main office or a branch office in this state and is selected from a list adopted by the City; or (ii) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity; (b) where the broker or the depository institution selected by the investing entity under (a) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (iv) the investing entity appoints the depository institution selected by the investing entity under (a), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-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) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution, (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt services, and to invest no portion of bond proceeds, reserves and funds held for debt service in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

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, 2012, 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
Federal Agencies	92.690%
Statewide Pool	7.310%
Totals	100.000%

[(1)] Reflects current investments for all City funds.

As of March 31, 2012, the weighted average maturity of the City's operating portfolio was 511 days and the market value of the operating portfolio was 100 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 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 Bonds, Series 2012.

(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: 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; Water and Wastewater System Revenue Bonds, Series 2008, authorized by an Ordinance of the City Council passed on June 15, 2008; Water and Wastewater System Revenue Refunding Bonds, Series 2009, authorized by an Ordinance of the City Council passed April 7, 2009; Water and Wastewater System Revenue Refunding Bonds, Series 2010 authorized by an Ordinance of the City Council passed June 22, 2010 and Water and Wastewater System Revenue Bonds, Series 2010, authorized by an Ordinance of the City Council passed October 19, 2010.

(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."

<u>Revenue Fund.</u> 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 under, paragraph (f) below) 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."

AMENDMENTS … The City may, without consent of or notice to any owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the owners of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all owners of outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by owners for consent to any such amendment, addition, or rescission.

COVENANTS BY THE 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 Bracewell & Giuliani LLP, 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, the City's Financial Advisor, and the Initial Purchasers with respect to matters solely within the knowledge of the City, the City's Financial Advisor, and the Initial Purchasers; 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 inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) includes 75% of the amount by which 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 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 captions "Tax Exemption" and "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.

TAX LEGISLATIVE CHANGES…Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Obligations. Prospective purchasers of the Obligations should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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 the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge via the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

ANNUAL REPORTS…The City will provide certain updated financial information and operating data to the MSRB annually. 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. The City will provide the updated information to the MSRB annually via EMMA.

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

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

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

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

LIMITATIONS AND AMENDMENTS…The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although 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…During the last five years the City has complied in all material respects with its prior undertakings.

OTHER INFORMATION

RATINGS…The Bonds are rated "AAA" by Fitch Ratings, One State Street Plaza, New York, New York, 10004 ("Fitch"), "Aa2" by Moody's Investors Service, Inc., 99 Church Street, New York, New York, 10007 ("Moody's"), and "AA+" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, 55 Water Street, New York, New York, 10041 ("S&P") for credit ratings on the Bonds. The unenhanced outstanding water and wastewater revenue debt of the City is rated "Aa2" by Moody's, "AA+" by S&P and "AAA" 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 accrued a $1,250,000 liability for the fiscal year ended September 30, 2011 to account for agreed-upon settlement of an APFA lawsuit filed against the City in 2002. The City paid the settlement amount in January, 2012, to a bankruptcy trustee with the understanding that after collection of the judgement and repayment of creditors, any excess amount would be returned to the City.

The City is currently involved in several lawsuits that are in appeals, with potential liability for the City; however, the City does not consider these lawsuits to contain a probable likelihood of unfavorable outcomes. Based upon comparative responsibility, some liability is probable in one lawsuit in which the City is involved. Pursuant to the Texas Tort Claims Act, damages would be capped at $250,000. Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position as a whole.

REGISTRATION AND QUALIFICATION 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 Bracewell & Giuliani LLP, 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 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.

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.

INITIAL PURCHASER OF THE BONDS…After requesting competitive bids for the Bonds, the City accepted the bid of Hutchinson, Shockey, Erley & Company, (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the cover page of the Official Statement at a price of 102.080% of par. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

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

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.

CERTIFICATION OF THE OFFICIAL STATEMENT…At the time of payment for and delivery of the Obligations, the Purchasers of the Obligations will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda, supplement or amendment thereto, for its Obligations, on the date of such Official Statement, on the date of sale of said Obligations and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since August 31, 2011, the date of the last audited financial statements of the City appearing in the Official Statement.

MISCELLANEOUS…The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in 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 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 Purchasers.

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

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

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY OF ARLINGTON

The City

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

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

General

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

Mayor and City Council

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

Administration

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

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

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ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2012 estimated population for the City of Arlington is 368,854. The following table presents population figures for selected years.

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

Year		Arlington	Annual Rate of Change	United States	Annual Rate of Change
1950	(1)	7,692		151,325,798	
1960	(1)	44,775	19.26%	179,323,175	1.71%
1970	(1)	90,643	7.31%	203,211,926	1.26%
1980	(1)	160,113	5.85%	226,545,805	1.09%
1990	(1)	261,721	5.04%	248,709,873	0.94%
2000	(1)	332,969	2.44%	281,421,906	1.24%
2010	(1)	365,438	0.93%	308,745,538	0.93%
2011	(2)	368,854	0.93%	312,759,230	1.30%
2012	(2)	372,543	0.00%	316,825,100	1.30%

Source: U.S. Dept. of Commerce, U.S. Census, and the Community Development and Planning Department Estimates.
(1) Actual Census population.
(2) Estimated population for City of Arlington calculated at 0.9348% annual growth per the City of Arlington, TX. Estimated population from the United States is calculated at 1.28% annual growth rate, per the United States Census Bureau.

Employment

As illustrated in the table below, the City has maintained lower unemployment rates than the United States and the State of Texas. For 2012, the City's unemployment rate averaged 6.9 percent compared to the U.S. rate of 8.7 percent and the Texas rate, which was 7.2 percent.

Unemployment Rate
Annual Average Rates
2008 to 2012

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

Source: U.S. Bureau of Labor Statistics

Arlington Major Employers [(1)]

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

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

Building Permits

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

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

Source: City of Arlington Building Inspections Division

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APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF ARLINGTON YEAR ENDED SEPTEMBER 30, 2011

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Grant Thornton

Report of Independent Certified Public Accountants

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arlington Convention and Visitors Bureau, Inc., audited by other auditors were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

Grant Thornton

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

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

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

GRANT THORNTON LLP

Dallas, Texas
March 7, 2012

This discussion and analysis of the City of Arlington's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2011. It should be read in conjunction with the accompanying letter of transmittal and financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets of governmental activities **decreased** by $12.4M (1.0%) this year, primarily due to a net decrease in cash and cash equivalents.

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

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

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

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

  - Total debt of $738M **decreased** $14.3M during the year. Debt issues in 2011 include $54.57M in Permanent Improvement and Refunding bonds, $1.77M in Certificates of Obligation, $13.9M and $3.3M in Water and Wastewater System Revenue and Refunding bonds, and $25.6M in Municipal Drainage Utility System Revenue Bonds. Bond principal payments for 2011 total $44.98M on existing obligations and $68.43M was refunded. Debt is allocated 80% for general government, with the remaining 20% to water, wastewater and storm water activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

- Governmental Activities **–** Most of the City's basic functions are reported here, including general government, public safety, public works, public health, parks and recreation, public welfare, convention and event services and interest and fiscal charges. Property taxes, sales taxes and franchise fees provide the majority of funding for these activities, with the addition of charges for services, grants and contributions.

- Business-type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system is reported here, as well as storm water utilities.

- Component Units – The City includes one blended component unit with financial activity in 2011 in its report – Arlington Property Finance Authority, Inc. For fiscal year 2011, the City includes five discretely presented component units in its report – Arlington Housing Authority (AHA), Arlington Convention and Visitors Bureau (ACVB), Arlington Housing Finance Corporation (AHFC), Arlington Tomorrow Foundation (ATF), and Arlington Industrial Corporation (AIC). Although legally separate, these component units are important because the City is financially accountable for them.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

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

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

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

NOTES TO THE FINANCIAL STATEMENTS AND OTHER INFORMATION

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

THE CITY AS A WHOLE – Government-wide Financial Analysis

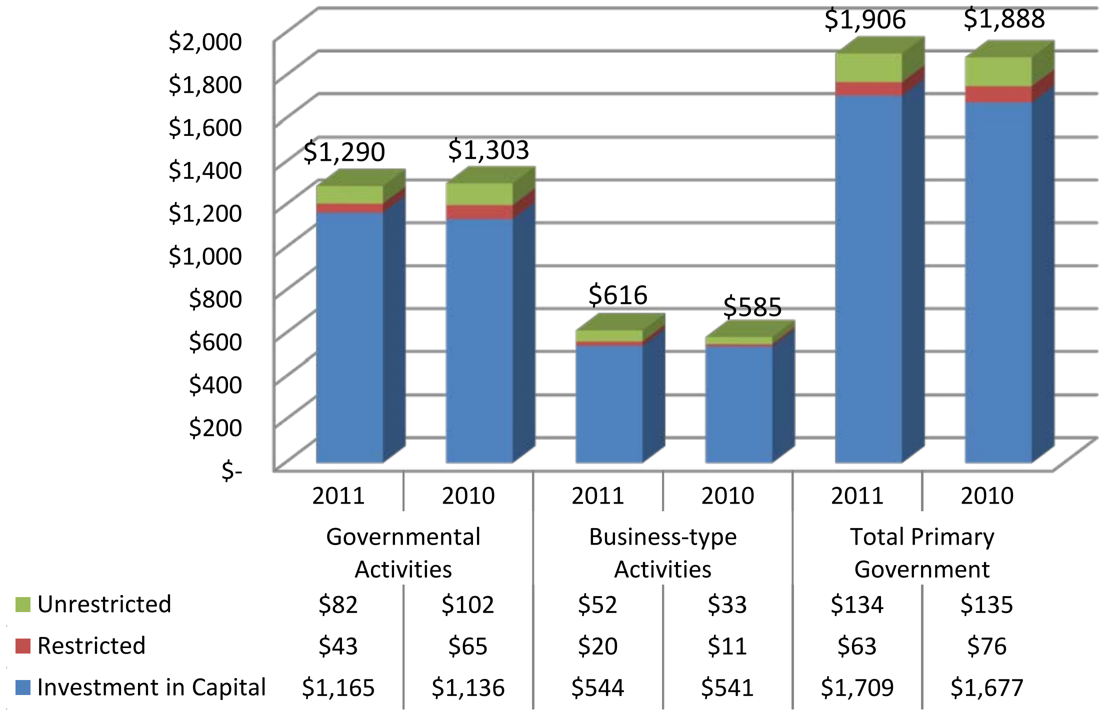
The City's combined net assets were $1.9B as of September 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, the governmental activities net assets are $1.3B and the business-type activities net assets are $616M. This analysis focuses on the net assets and changes in general revenues and significant expenses of the City's governmental and business-type activities.

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

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

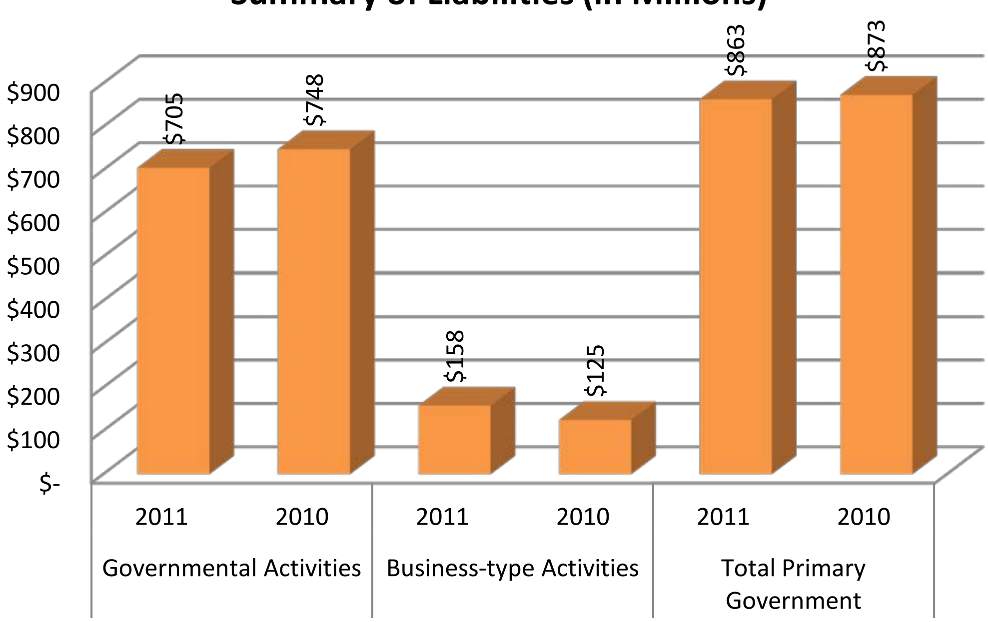
By far the largest portion of the City's net assets (89.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets (in Millions)



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

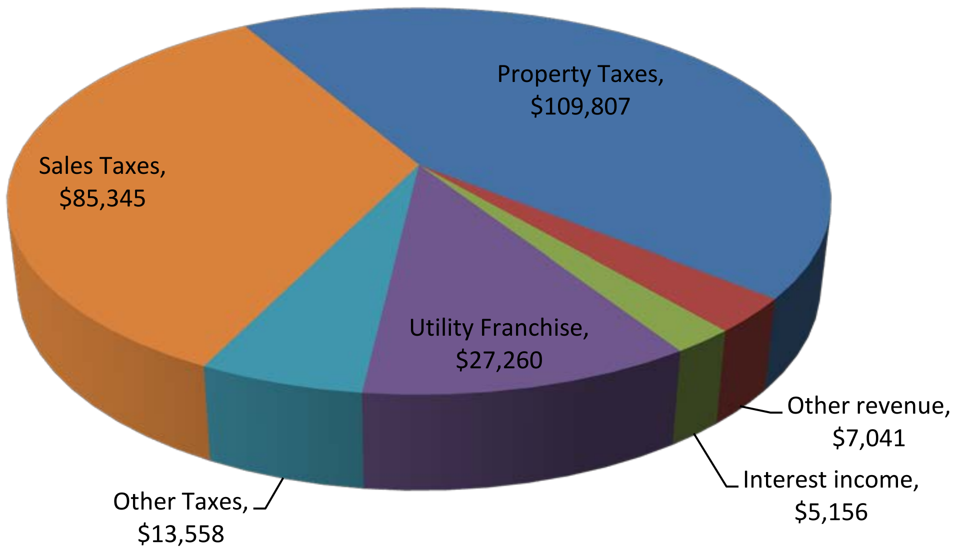
Summary of Liabilities (in Millions)



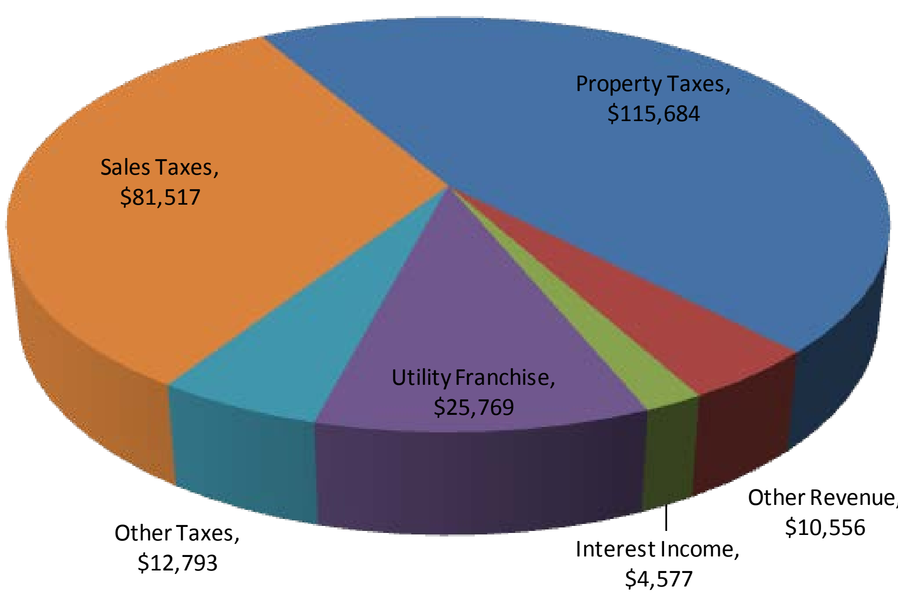
Governmental Activities

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

2011 General Revenue (in thousands)



2010 General Revenue (in thousands)



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

Governmental activities decreased the City's net assets by $12.4M, while Business-type activities increased net assets by $31.3M, for a net increase of $18.9M. The key elements of these increases are as follows:

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

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

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

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

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

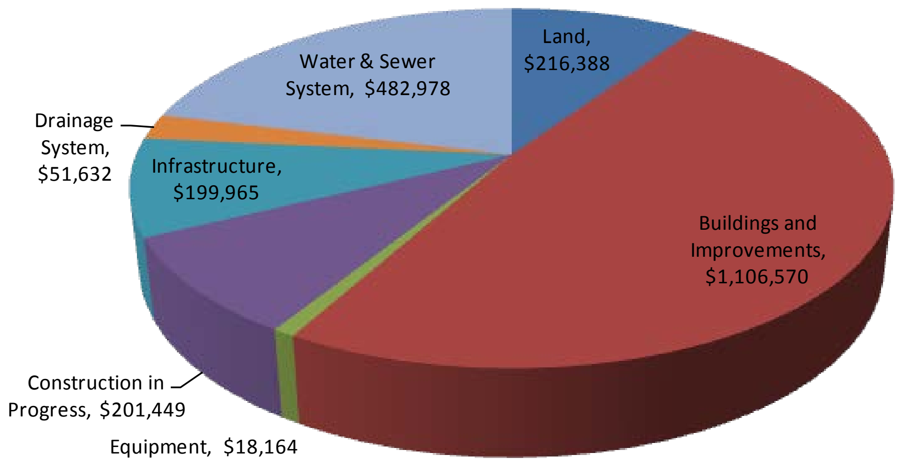
At the end of the fiscal year 2011, the City had $2.28B invested in a broad range of capital assets. This amount represents a net decrease (including additions and deductions) of $10.1M or .4% from the prior fiscal year. The decrease is comprised of a $30.6M decrease in governmental activities and a $20.5M increase in business-type activities. This year's net decrease is related to typical, ongoing improvements of City infrastructure and replacement of machinery and equipment along with related depreciation. Footnote 5 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

Table 3
Capital Assets, net of Accumulated Depreciation
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 209,397	$ 208,407	$ 6,991	$ 6,696	$ 216,388	$ 215,103
Buildings and improvements	1,104,979	1,121,027	1,593	1,649	1,106,572	1,122,676
Equipment	17,153	19,139	1,011	1,036	18,164	20,175
Construction in progress	117,637	125,869	83,812	73,503	201,449	199,372
Infrastructure	199,965	205,264	-	-	199,965	205,264
Drainage system	-	-	51,632	51,558	51,632	51,558
Water and sewer system	-	-	482,978	473,080	482,978	473,080
Totals	$ 1,649,131	$ 1,679,706	$ 628,017	$ 607,522	$ 2,277,148	$ 2,287,228

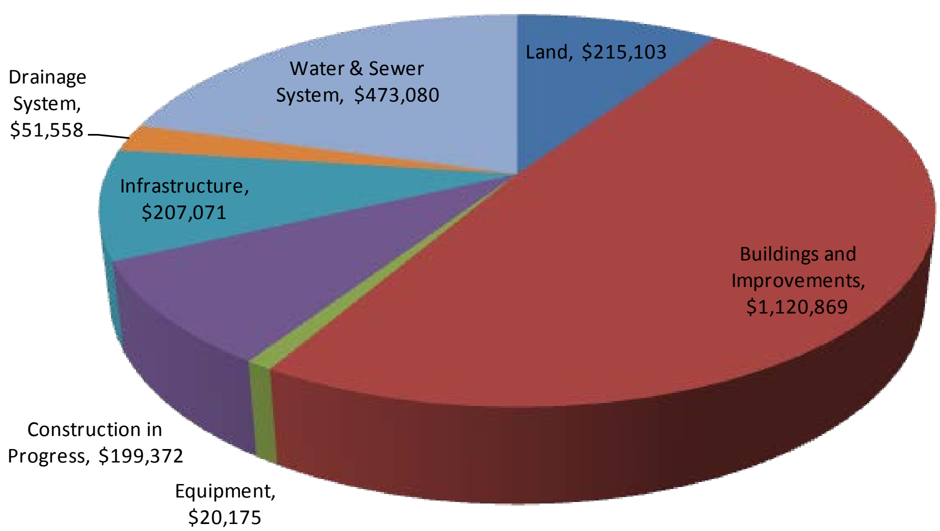
2011 Capital Assets

(in thousands)



2010 Capital Assets

(in thousands)

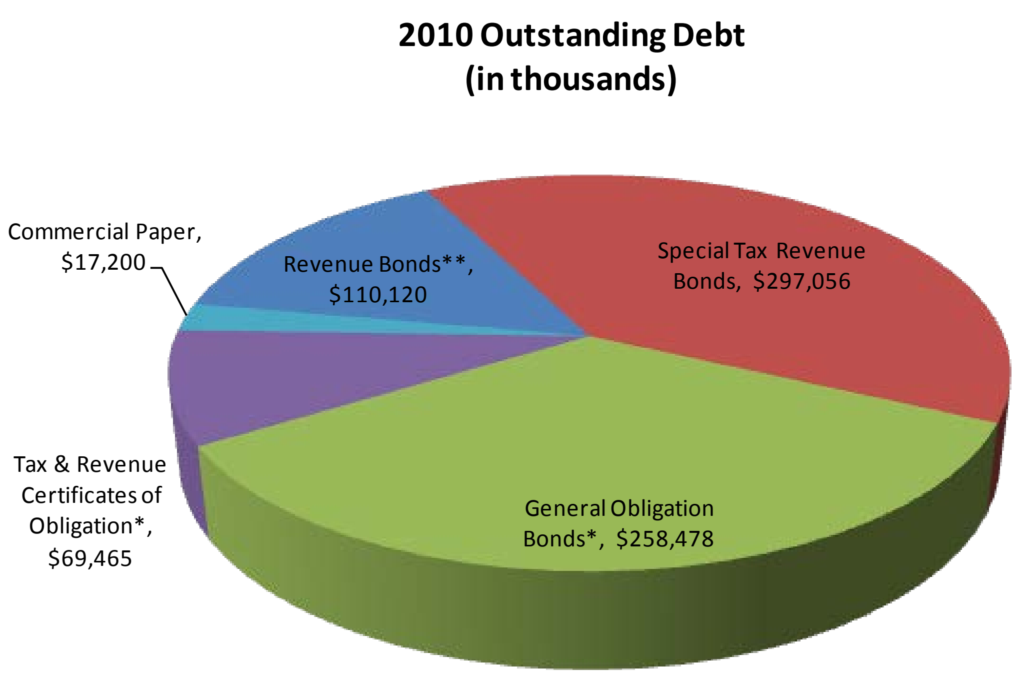


Major capital asset additions during the fiscal year include the following:

- Private developer capital contributions of $1.1M to the City's water and sewer infrastructure in connection with various residential and commercial developments
- Water and sewer system capital improvements and expansion of $19M
- Storm drainage and street construction projects capital outlay totaling $17M
- Improvements to parks and recreation facilities of $4.5M
- Construction of the new fire stations #3 and #9 of $4.8M

Debt

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



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

Table 4
Outstanding Debt
(Amounts Expressed In Thousands)

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

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

In 2011, the City's tax supported debt rating was AA+ by Fitch, Inc. and was an Aa1 rating by Moody's Investor Services. The City maintained its AA+ rating by Standard and Poor's Corporation on its tax supported debt. The City also maintained ratings of water and wastewater revenue bonds, AA+ rating from Standard and Poor's Corporation, Aa2 rating from Moody's Investor Service and AAA from Fitch, Inc. The ratings on the Cowboys Complex Special Obligations remained rated A2 by Moody's and AA by Standard and Poor's. The ratings for Municipal Drainage Utility System Revenue Bonds (Storm Water) are Aa2 by Moody's and AAA by Standard and Poor's Corporation.

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

The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net bonded debt to assessed value of all taxable property is 1.92%.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over $500,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors which can vary considerably from year to year. Claim liability decreased to $9.5M in 2010 and then increased in 2011 to $11.5M.

COWBOYS COMPLEX DEVELOPMENT PROJECT

The Stadium Complex opened in July 2009, and the Dallas Cowboys began playing their home season games there. The City and the Complex hosted Super Bowl XLV in 2011.

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

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

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

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

THE CITY'S FUNDS

The governmental funds of the City reported a combined fund balance of $236M. The General Fund balance was $66.8M, an increase of $.2M from prior year. This slight increase can be attributed to a deliberate attempt by City management to balance current revenues against current expenditures. The Debt Service fund balance was $20.6M lower than prior year, primarily due to the early mandatory redemption of special tax revenue debt (Cowboys). The Debt Service Fund ended the year with a fund balance of $38.1M. Other changes in fund balances should be noted:

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

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

- The Storm Water Utility fund, created in 2009 to address the City's need to manage issues associated with storm water runoff, saw an increase to fund balance in 2011; storm water fee revenues exceeded fund expenses by $6.1M, increasing fund balance to $70.9M at the end of the fiscal year.

GENERAL FUND BUDGET HIGHLIGHTS

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

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

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

ECONOMIC FACTORS AND FISCAL YEAR 2012

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

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

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

The City's portion of the sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is dedicated to the Street Maintenance Fund, and one-half cent provides for debt service for the Cowboy Project debt. Sales tax revenue for the General Fund for fiscal year 2012 is estimated at $47.5M, a 1.0% increase from 2011.

The largest revenue sources for the Water and Sewer Fund is water sales and wastewater treatment budgeted at $116.3M. The City maintains a rate structure designed to ensure that each category of service is self-supporting.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2011
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

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CITY OF ARLINGTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(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	$ 74,285	$ 21,810	$ -	$ 1,264
Public safety	135,371	21,131	9,644	-
Public works	71,828	1,153	1,511	1,277
Public health	3,892	2,775	1,310	-
Parks and recreation	28,663	9,999	10	84
Public welfare	11,897	215	10,980	-
Convention and event services	6,194	2,975	-	-
Interest and fiscal charges	29,890	-	-	-
Total Governmental Activities	362,020	60,058	23,455	2,625
Business-Type Activities:				
Water and sewer	84,270	123,442	-	1,120
Storm water utility	4,861	10,492	-	-
Total Business-Type Activities	89,131	133,934	-	1,120
Total Primary Government	$ 451,151	$ 193,992	$ 23,455	$ 3,745
Component Units:				
Arlington Housing Authority	$ 28,733	$ -	$ 27,449	$ -
Arlington Convention and Visitors Bureau	4,155	4,201	-	-
Arlington Tomorrow Foundation	1,777	-	-	-
Arlington Housing Finance Corporation	43	-	59	-
Total Component Units	$ 34,708	$ 4,201	$ 27,508	$ -

General Revenues:
Property taxes
Sales taxes
Criminal justice tax
State liquor tax
Bingo tax
TIF/TIRZ
Occupancy tax
Franchise fees based on gross receipts
Interest
Net decrease in fair value of investments
Other
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

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

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

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

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

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

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

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds		$ (17,154)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		27,665
Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds.		(59,209)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		317
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Interest on bond payoff	(1,912)	
Repayment of general obligation debt	61,785	
Proceeds from issuance of bonds	(17,088)	
Repayment of capital lease	64	
Amortization of deferred loss on bond refunding	(878)	
Amortization of bond premium	1,148	
		43,119
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	560	
Arbitrage	75	
Accrued interest expense	(974)	
Post-employment benefit obligation expense	(3,675)	
Post-employment benefit asset	124	
TMRS net pension obligation	(3,451)	
Amortization of issuance cost	(333)	
Sales tax	224	
		(7,450)
Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities.		345
Change in net assets of governmental activities		$ (12,367)

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

(continued)

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(AMOUNTS EXPRESSED IN THOUSANDS)

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

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

ARLINGTON

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Financial Statement Presentation

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

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

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

B. Reporting Entity

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

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

Arlington Property Finance Authority, Inc.

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

Arlington Convention Center Development Corporation

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

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

Arlington Housing Authority

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

Arlington Convention and Visitors Bureau, Inc.

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

Arlington Tomorrow Foundation

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

Arlington Housing Finance Corporation

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

Arlington Industrial Development Corporation

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

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

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

2. Enterprise Funds:

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

3. Other Fund Types:

The City additionally reports for the following Fund types:

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

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

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

E. Cash, Cash Equivalents and Investments

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

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

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

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

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

F. Inventories and Prepaid Items

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

G. Capital Assets

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

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

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

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

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2011, 2,086,517 of interest cost, net of $129,049 interest earned, was capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Interest expensed (net of capitalized interest) and interest earned in fiscal 2011 for the Water and Sewer Fund amounted to approximately $2,087,500 and $681,900, respectively.

I. Arbitrage Liability

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

J. Compensated Absences

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

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

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

K. Long-term Obligations

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

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

L. Nature and Purpose of Classifications of Fund Equity

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

M. Minimum Fund Balance Policy

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

N. Net Assets

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

O. New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as expenditures on the budgetary basis and interdepartmental expenses which are eliminated. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The schedules comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other revenue and expenditure items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the fund level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2011, there were budget amendments in the General Fund to increase Community Services expenditures to hire one Code Compliance Officer I in Animal Services in the amount of $43,000. That increase in expenditures will be offset by reduced General Fund salaries for turnover savings by the same amount. There was also an increase in the authorized appropriation in the Fire Non-Arbitrage Fund by $1,122,000 by appropriating $700,000 of undesignated, unreserved fund balance and an additional $422,000 appropriated from General Fund reserves designated for dispatch services. These appropriations will provide funding for the Fire Department to begin the multi-year process of acquiring a new computer-assisted dispatch (CAD) system. There was an increase in the Street Maintenance Fund appropriations by $2,000,000 which was in the fund's fiscal year-end 2010 balance, to cover increased funding for street repairs and maintenance. Additionally, in the Water Utilities Fund, expenses related to purchases of supplemental water and sewage treatment from the Trinity River Authority and Tarrant Regional Water District, decreased the fund's expenses by $404,621. There was also a decrease in revenue projections by $462,000 related to revised activation and convenience fees, and lower estimates for various other revenues, which will decrease available funding by that amount in the Water Utilities Fund.

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

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

Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures, but are eliminated from actual revenues and expenditures.

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

B. Excess of expenditures over appropriations

For the year ended September 30, 2011, there were no expenses exceeding budget in the aggregate.

C. Deficit fund equity

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

North Texas Council of Governments: ($2,256,000)
Disaster Assistance: ($4,000)

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

Additionally, the Police Capital Projects fund has a deficit balance of $104,000. This deficit will be funded through the issuance of permanent improvement bonds and certificates of obligation.

III. DETAILED NOTES ON ALL FUNDS

1. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Deposits - At September 30, 2011, the carrying amount of the City's demand deposits was $30,666,000 (bank balance, $36,327,000). The $30,666,000 balance consisted of a $30,281,000 balance in City Funds and a $385,000 balance in Component Unit Funds. The balance in cash on hand was $70,000 at year end.

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

The City is the beneficiary of a Closure/Post Closure Trust in the amount of $7,276,000. This amount is recorded as an investment in trust and as a landfill closure accrued liability. Under the landfill lease agreement, the lessee must maintain a trust equal to the amount of the City's closure/post closure liability. The lessee contributed $5,154,000 at closing and makes annual contributions of approximately $600,000. The funds in this trust are to be used solely by the City to pay for closure and post closure expenses as they are incurred.

As of September 30, 2011, the City had the following cash, cash equivalents and investments (amounts in thousands):

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

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

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

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

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

Credit Risk. In accordance with its investment policy, the City minimizes credit risk by limiting investments to the safest type of investments. The Arlington Housing Authority's investments in the Federal Home Loan Bank bond was rated AAA by Moody's.

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

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

As of September 30, 2011 the City's overall portfolio consisted of:

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

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

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

Custodial Credit Risk. State statutes require that all City deposits in financial institutions be fully insured by the Federal Deposit Insurance Corporation (FDIC) collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits or by a Letter of Credit from a Federal Agency.

The City's investments in public funds investment pools include investments in TexPool, TexasDaily and TexStar. These are public funds investment pools operating as an SEC 2a-7 like pool in full compliance with the Public Funds Investment Act. TexPool, TexasDaily and TexStar are rated as AAA money market funds by Standard & Poor's. As of September 30, 2011, the City's investment in TexPool was $3,279,000 with a market value of $3,279,000. The City's investment in TexasDaily was $20,001,000 with a market value of $20,001,000 and the City's investment in TexStar was $2,001,000 with a market value of $2,001,000.

2. PROPERTY TAXES

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

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2010, upon which the original FY11 levy was based, was $17,179,112,309.

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

For the fiscal year ended September 30, 2011, the City had a tax rate of $0.6480 ($0.4393 for general government and $0.2087 for debt service) per $100 assessed valuation with a tax margin of $1.8520 per $100 valuation based upon a maximum ad valorem tax of $2.50 per $100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately $318,157,160 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $17,179,112,309.

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

3. COWBOYS COMPLEX DEVELOPMENT PROJECT

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

Stadium Lease - As part of the Funding Agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (the "Tenant") for lease of the Complex. The Lease Agreement calls for an initial term of 30 years. Monthly lease payments of $166,666.67 began in June, 2009 for an annualized rental rate of $2 million per year. The Lease Agreement contains several renewal options at guaranteed annual rental payments of $1 million per year for the first 10 years and $1.25 million per year for all remaining renewals. The Lease Agreement also provides the

Tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the Tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the Tenant, capped at $500 thousand per year. There was no such naming rights revenue for the latest fiscal year. The lease is accounted for as an operating lease. The cost of the stadium is $1,109,951,954 with an accumulated depreciation of $56,225,237.

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

Conduit Debt - In 2006, $147,865,000 Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 (the "Cowboys Admission and Parking Taxes Revenue Bonds") with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P., were issued to fund a portion of the Dallas Cowboy's funding for the Complex. The Cowboys Admission and Parking Taxes Revenue Bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt. At September 30, 2011, outstanding conduit debt was $142,925,000.

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

4. RECEIVABLES

Receivables at September 30, 2011 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (amounts expressed in thousands):

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

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

(Amounts expressed in thousands)

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

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

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

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

Discretely presented component units:

(amounts expressed in thousands)

	Balance at Beginning of Year	Transfer and Additions	Transfers and Retirements	Balance at End of Year
Arlington Housing Authority, Inc.				
Capital assets, being depreciated:				
Buildings and improvements	$ 563	$ -	$ -	$ 563
Machinery and equipment	354	59	(44)	369
Totla capital assets, being depreciated	917	59	(44)	932
Less accumulated depreciation for:				
Machinery and equipment	(408)	(75)	44	(439)
Total accumulated depreciation	(408)	(75)	44	(439)
Arlington Housing Authority, Inc. Capital assets, net	$ 509	$ (16)	$ -	$ 493

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

6. PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

Plan Description:

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 842 administered by TMRS, an agent, multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2010 valuations are contained in the 2010 TMRS comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or accessing the CAFR on line at www.tmrs.com.

Benefits depend upon a sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provides on an annually repeating basis annuity increases for retirees. In 2011, that amount was equal to 50% of the change in the consumer price index (CPI).

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

Funding Policy:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. The rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 16.76% of covered payroll for the months in calendar year 2010, and 17.16% for the months in calendar year 2011. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation for the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2009 valuation is effective of rates beginning January 1, 2011). If a change in plan provisions is elected by the City, this rate can change.

Annual Pension Cost and Net Pension Obligation:

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

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

Three-Year Trend Information

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

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

Changes in Actuarial and Amortization Methods:

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

Funding Status and Funding Progress:

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

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

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

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

Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution savings are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2011, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $108,685,000.

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

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

Part-Time Deferred Income Trust

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

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

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

The actuarial assumptions used in the July 1, 2011 actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. Because the assets of the plan exceed the actuarial liability, amortization of the unfunded liability is discontinued and the contribution required for the plan was developed under the aggregate cost method. This method does not identify or separately amortize unfunded actuarial accrued liabilities; the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

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

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

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

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

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

IRC 457 Deferred Compensation Plans

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

Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust and Thrift Savings Plans do not issue separate GAAP financial reports. Their financial statements are presented below as of and for the year-ended September 30, 2011 (amounts in thousands):

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

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

7. OTHER POST EMPLOYMENT BENEFITS

Disability Income Plan

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

Summary of Significant Accounting Policies

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

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

Plan Description and Contribution Information

Membership of the plan consisted of the following at July 1, 2011, the date of the latest actuarial valuation:

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

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

Contributions. The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City's contribution is determined through an actuarial valuation. Per the most recent valuation, the City is contributing at a rate equivalent to 0.30 percent of covered payroll. For the year ended September 30, 2011, the City contributed $383,000 to the plan. Administrative costs of DIP are financed through investment earnings.

Funded Status and Funding Progress

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

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

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined

in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Valuation date	07/01/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar amortization
Remaining amortization period	20 years (closed)
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return (includes inflation assumption of 4.5%)	6.5 percent
Pay progression	4.5 percent

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

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

Annual required contribution	$ 276
Interest on net OPEB asset	(13)
Adjustment to annual required contribution	(14)
Annual OPEB cost (expense)	249
Contributions made	(373)
Increase in net OPEB asset	(124)
Net OPEB asset - beginning of year	(192)
Net OPEB asset - end of year	$ (316)

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

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

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

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

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

Retiree Health Insurance

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

An eligible employee can continue their health care coverage in retirement if their age plus service is at least 70 with a minimum age requirement of 50 years and a minimum of ten years of service with the City. Employees hired after December 31, 2005 are not eligible for postretirement health care benefits. As of January 1, 2011, 637 retirees met those eligibility requirements. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants.

Retiree Contributions for Pre-2008 Retirees

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

Retiree Contributions for January 1, 2008 and After

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

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

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

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

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

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

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Contribution	Net OPEB Obligation
9/30/11	$ 8,379	56.14%	$ 20,731
9/30/10	$ 8,398	31.80%	$ 17,056
9/30/09	$ 8,947	26.72%	$ 11,328
9/30/08	$ 8,100	41.09%	$ 4,772

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $109.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $109.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $95.6 million, and the ratio of the UAAL to the covered payroll was 87.6 percent.

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

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

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

Supplemental Death Benefits Plan

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

Funding Policy. Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently .14 percent of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees covered by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are made monthly based on covered payroll of employee members of the City. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB. The City's contributions to SDBF for the years ended September 30, 2011, 2010, and 2009, were $201,409, $257,104, and $258,737 respectively, which equaled the required contributions each year.

8. DEBT AND LIABILITIES

General Short-Term Debt

During fiscal 2005, the City authorized a $30,000,000 commercial paper program for interim funding of general obligation debt. The debt will mature on various days over the next several months and will be rolled over. During fiscal 2011 commercial paper of $4,300,000 was paid off from permanent improvement bond refunding.

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

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

General Obligation Bonds

On November 1, 2010, the City issued Permanent Improvement Refunding Bonds, Series 2010A of $21.58 million with an interest rate of 2.0 to 4.0 percent and serial maturities on August 15 from 2011 through 2023. Interest on the bonds is due every February and August 15, beginning February 15, 2011. The bonds were issued to refund certain debt obligations of the City and to pay costs related to the issuance of the bonds. The refunding resulted in a deferred loss of $2,065,910. The Series A bonds mature on August 15 over a period from 2012 to 2023. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirements for the Series A bonds at a rate from 2.00 to 4.00 percent is $5,727,450 in the aggregate. The following is a breakdown of the refunded obligations (amounts in thousands):

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

In June, 2011, the City issued $17,805,000 in Permanent Improvement and Refunding Bonds, Series A and $15,185,000 in Permanent Improvement and Refunding Bonds, Series 2011B, for the purpose of refunding a portion of the City's outstanding debt, making various capital improvements, paying the cost of issuance of the bonds, and refunding $4,300,000 of commercial paper notes. The Series A bonds mature on August 15 over a period from 2012 to 2031. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirements for the Series A bonds at a rate from 2.00 to 4.125 percent is $6,867,394 in the aggregate. The Series B bonds mature on August 15 over a period from 2012 to 2021. Interest is payable February 15 and August 15 of each year, commencing August 15, 2011. Total interest requirement for the Series B bonds at a rate from 2.00 to 2.87 percent is $1,311,068 in the aggregate. The City is amortizing a deferred losses on the 2011B bonds of $513,258. The refunding was undertaken to achieve a present value savings on debt service payments of $926,536. Following is the schedule of refunded obligations (amounts in thousands):

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

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

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

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

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

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

Certificates of Obligation

Concurrent with the 2011 Public Improvement and Refunding Bonds, the City issued $1,770,000 in Combination Tax and Revenue Certificates of Obligations, Series 2011 in June. The proceeds from the sale of these certificates are being used to fund municipal airport facilities and taxiways as well as the cost of the issuance. The certificates mature August 15 over the period 2012 to 2031. Interest on the certificates is payable February 15 and August 15, commencing August 15, 2011. Interest on the certificates at a rate of 2.00 to 4.25 percent is $686,347 in the aggregate.

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

Year Ending September 30	Governmental Activities, Certificates of Obligation Principal	Interest
2012	$ 4,230	$ 2,634
2013	4,870	2,490
2014	4,810	2,344
2015	4,535	2,198
2016	4,295	2,062
2017-2021	12,630	8,574
2022-2026	13,505	5,735
2027-2031	11,590	2,687
2032-2033	4,820	337
	$ 65,285	$ 29,061

Special Obligation Bonds

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

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

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

The City has pledged future revenues consisting of one-half cent sales tax, two percent hotel occupancy tax, five percent car rental tax, future stadium base rental revenue of $2 million per year and five percent of any future naming rights up to a maximum of $500 thousand annually to repay the Cowboys Stadium Bonds. Annual principal and interest payments are expected to require 100 percent of these revenues. Series 2005A are subject to mandatory sinking fund redemption to the extent that there are moneys on deposit available for such purpose. In 2011, the City redeemed $17,225,000 of the 2005A Term Bonds maturing August 15, 2034, and $10,275,000 of bonds maturing August 15, 2033. The total principal and interest remaining to be paid on the Cowboys Stadium Bonds is $423,830,000. Principal and interest payments and total pledged revenues for the year ended September 30, 2011 were $22,405,000 and $23,568,000, respectively, exclusive of the redemption.

Revenue Bonds

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

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

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

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

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

Net revenues of the City's water operations have been pledged for repayment of the City's revenue bonds. The amount of the pledge is equal to the remaining outstanding debt service requirements for these bonds, which were all originally issued to provide funding for construction of the water and wastewater systems. The pledge continues for the life of the bonds. For the year ended September 30, 2011, net pledged revenues for the water enterprise fund were $56,201,000 and debt service on the revenue bonds was $14,804,071. The same pledge for repayment applies to the City's Storm Water Utility revenue of $8,009,936 for the bonds issued in fiscal year 2011.

Sales Tax Liability

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2011, this liability is reported at $278,522 in the governmental activities.

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

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

9. PRIOR YEAR BOND REFUNDINGS

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2011, previously defeased debt still outstanding amounted to $27,865,000.

10. INTERFUND TRANSACTIONS

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

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

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

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

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

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

The General Fund transferred $9,792,000 to Street Maintenance Fund, Special Transportation (Handitran), Arlington Property Finance Authority, Parks Performance Fund to cover budgeted operating expenses.

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

The Debt Service Fund received transfers of $1,337,000 from the Convention and Event Services and Water and Sewer Funds to cover debt service repayments.

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

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

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as a liability on the Statement of Net Assets in each period based on landfill capacity used as of each balance sheet date. This liability is offset by an asset recorded for a trust account established for the purpose of paying the closure and post-closure costs as more fully described below. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The $7,276,000 reported as a landfill closure and post-closure accrued liability at September 30, 2011, represents the cumulative amount reported to date based on the use of approximately 65 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $1,579,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2011. The City expects to close the landfill in 2028. Actual costs may change due to inflation, changes in technology, or changes in regulations.

On March 18, 2005, the City entered into a contract with Republic Waste Services of Texas, Ltd. (Republic) for a 20 year renewable operating lease of the landfill. The City received an initial payment of $15 million; the remaining balance of deferred revenue of $6,173,000 will be amortized over the life of the lease. Republic is responsible for the funding of monthly contributions to a trust account that will pay closure and post-closure costs as required by state and federal laws and regulations. Republic is in compliance with these requirements and at September 30, 2011, cash and cash equivalents are held for these purposes.

12. COMMITMENTS AND CONTINGENCIES

Trinity River Authority

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

Grant Audits

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

Construction Commitments

The City has various active construction projects as of September 30, 2011. The projects include street construction, park construction, police construction, traffic construction, and the construction of water and sewer facilities. At year-end the City's commitments with contractors are as follows (amounts in thousands):

Project	Spent-to-Date	Remaining Commitment
Street Construction	$ 51,950	$ 6,635
Park Construction	21,083	631
Police Construction	-	3
Traffic Construction	6,123	2,192
Storm Water Utility Construction	17,570	1,600
Water and Sewer Construction	66,242	19,115
	$ 162,968	$ 30,176

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

Litigation

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

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

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

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

13. RISK MANAGEMENT

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

Arlington Property Finance Authority (APFA)

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

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

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

Workers' Compensation

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

Group Health

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

Changes in the balances of claims liabilities during fiscal 2011 and 2010 were as follows (amounts in thousands):

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

14. LEASES

A. As Lessee

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

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

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

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

B. As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, the lessee shall pay the total annual rent of $250,000. For each year thereafter the lessee shall pay an annual rent amount equal to the previous year's rent plus an increase not to exceed the effective percentage change in the Consumer Price Index (Specifically CPI-U for Dallas-Fort Worth region) for the previous 12 month period. Total rental payments received in 2011 were approximately $265,375.

15. SETTLEMENT AGREEMENT

On April 27, 1999, the City entered into a Dispute Settlement Agreement and Agreement_Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the City alleged should be paid by the Rangers (the "Claim").

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

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

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

16. CAPITAL LEASE

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

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

Minimum future rentals are as follows:

September 30	
2012	$ 2,000,000
2013	2,000,000
2014	2,000,000
2015	2,000,000
2016	2,000,000
2017-2021	10,000,000
2022-2024	5,055,556
	25,055,556
Less Discount	9,204,607
Minimum future lease rentals	$15,850,949

17. CONDENSED COMPONENT UNIT INFORMATION

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

Condensed Schedule of Net Assets

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

Condensed Schedule of Activities

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

18. SUBSEQUENT EVENTS

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

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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[Form of Bond Counsel Opinion]

[Sale]

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CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM REVENUE BONDS
SERIES 2012

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 BONDS, SERIES 2011, dated June 1, 2012, in the principal amount of $_________________.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer and customary certificates of officers, agents and representatives of the Issuer, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of the Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

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

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

IT IS OUR FURTHER OPINION THAT:

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

(2) The Bonds are not "private activity bonds" within the meaning of the Code and, interest on the Bonds is not (A) a specific preference item subject to the alternative minimum tax on individuals and corporations or (B) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

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

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the 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, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state and local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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