NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aaa"
Standard & Poor's "AAA"
(CIFG Insured: See "The Bond Insurer" and "Ratings")

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

$8,780,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Combination Tax and Revenue Certificates of Obligation
Series 2006

Dated: July 15, 2006 **Due: August 15, as shown below**

The $8,780,000 City of Arlington, Texas, Combination Tax and Revenue Certificates, Series 2006 (the "Certificates") will be issued in fully registered form without coupons and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing February 15, 2007.

Payment of the principal of and interest on the Certificates when due will be insured by a financial guaranty insurance policy to be issued by CIFG Assurance North America, Inc. simultaneously with the delivery of the certificates.

CIFG
IXIS FINANCIAL GUARANTY

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number(1)	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number(1)
2007	$495,000	4.500%	3.700%	041790Y91	2017	$410,000	4.200%	4.300%	0417902B1
2008	495,000	4.500%	3.750%	041790Z25	2018	410,000	4.300%	4.350%	0417902C9
2009	495,000	4.500%	3.800%	041790Z33	2019	410,000	4.375%	4.450%	0417902D7
2010	495,000	4.500%	3.850%	041790Z41	2020	410,000	4.375%	4.550%	0417902E5
2011	495,000	4.500%	3.900%	041790Z58	2021	410,000	4.500%	4.600%	0417902F2
2012	490,000	4.500%	3.950%	041790Z66	2022	410,000	4.500%	4.650%	0417902G0
2013	485,000	4.500%	4.000%	041790Z74	2023	410,000	4.625%	4.680%	0417902H8
2014	410,000	4.500%	4.060%	041790Z82	2024	410,000	4.625%	4.690%	0417902J4
2015	410,000	4.500%	4.130%	041790Z90	2025	410,000	4.625%	4.700%	0417902K1
2016	410,000	4.100%	4.200%	0417902A3	2026	410,000	4.625%	4.710%	0417902L9

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

The date of this Official Statement is July 25, 2006.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

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CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	7 years [1]	May, 2007	Doctor
Ron Wright Mayor Pro Tem	6 years	May, 2008	Congressman's District Director
Mel LeBlanc Council member	[2]	May, 2008	Account Manager
Sheri Capehart Council member	5 years [3]	May, 2008	Computer Security Analyst, Retired
Robert Rivera Council member	1 year	May, 2007	Real Estate Developer
Kathryn Wilemon Council member	3 years	May, 2007	Community Volunteer
Lana Wolff Council member	3 years	May, 2007	Community Volunteer
Steve McCollum Council member	6 years	May, 2008	Small Business Owner
Gene Patrick Council member	3 years	May, 2007	Small Business Owner

(1) Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.
(2) Elected May 2006.
(3) Served as Council member from May 1999 to May 2003.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Jim Holgersson	City Manager	1
Ron Olson	Deputy City Manager – Strategic Support	1
Trey Yelverton	Deputy City Manager – Economic Development	13
Fiona Allen	Deputy City Manager – Capital Investment	15
Theron Bowman	Interim Deputy City Manager – Neighborhood Services	23
Chuck Springer	Interim Chief Financial Officer	18
Jay Doegey	City Attorney	20
Barbara Heptig	City Secretary	9

ATTORNEY AND INDEPENDENT AUDITORS

Independent Auditors	Deloitte & Touche, LLP Dallas, Texas
Bond Counsel	Vinson & Elkins L.L.P. Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

The Certificates 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 Certificates in accordance with applicable provisions of securities law of the states in which the Certificates have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof.

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

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.

The City does not make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its book-entry-only system.

CUSIP numbers have been assigned to the Certificates by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Certificates. The City is not responsible for the selection or correctness of the CUSIP numbers shown on the inside cover page.

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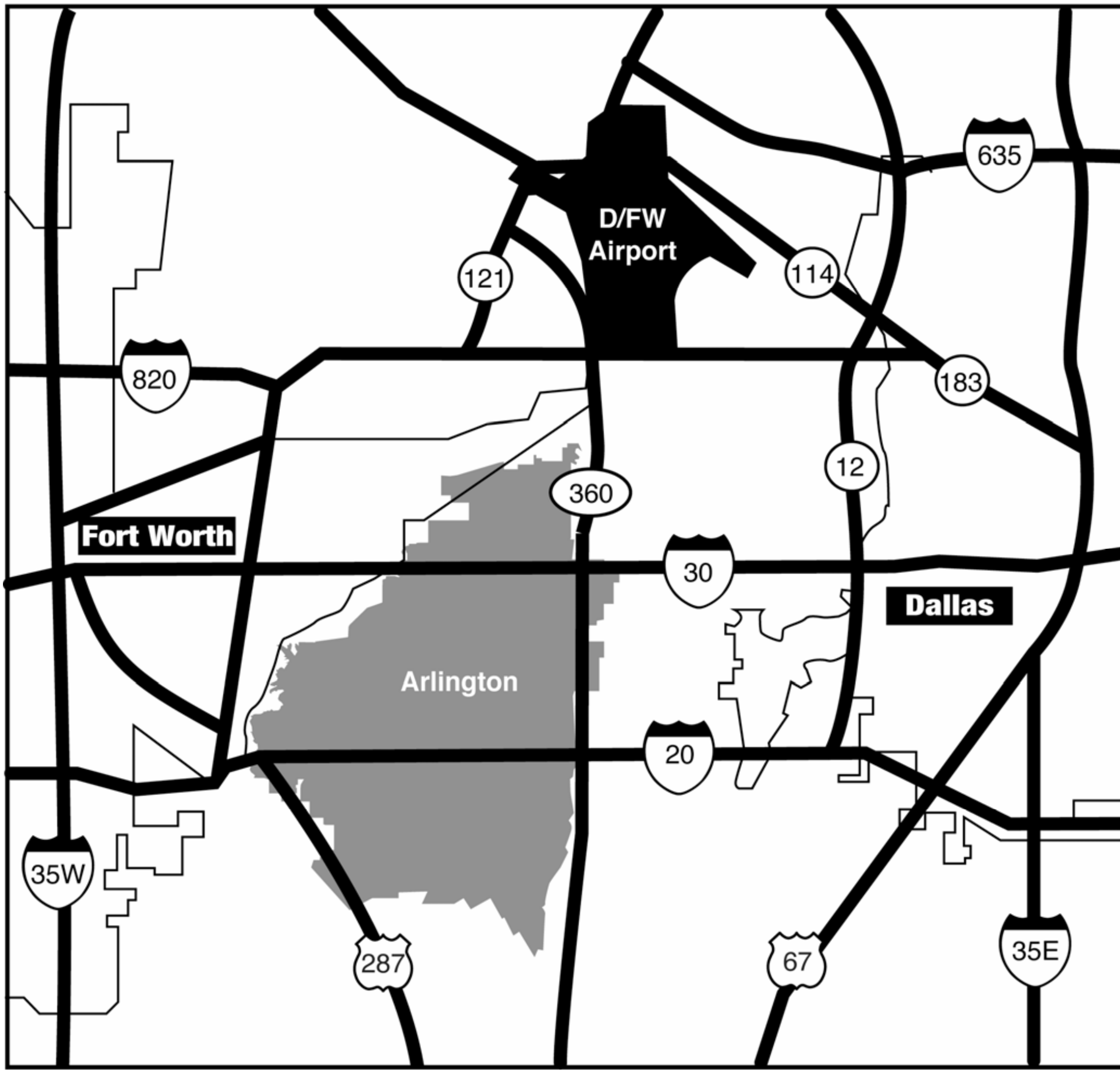
Dallas/Fort Worth/Arlington Metropolitan Area



SECTION ONE: INTRODUCTION

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

The Issuer

The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 98.7 square miles, had a 2000 census population of 332,969. The City's Planning and Development Services Department estimates the current population of the City to be 361,300 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.

The Certificates

$8,780,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2006 (the "Certificates"), will be dated July 15, 2006, and will mature on the dates set forth on the cover of this Official Statement. Interest will be paid on February 15, 2007, and on each August 15 and February 15 thereafter until maturity.

The Certificates are issued pursuant to the laws of the state of Texas and the ordinance (the "Ordinance") adopted by the City Council of the City.

Use of Proceeds

The proceeds from the sale of the Certificates are being utilized for: (i) acquisition, installation, and implementation of transportation related software programs; (ii) acquisition, construction, installation and implementation of computer network infrastructure equipment, software, servers, and fiber optics supplies and equipment*;* (iii) engineering, designing, land acquisition and planning for the construction, and improvement of the interchange at Division Street and State Highway 360, including signage, signalization, street lighting, related storm drainage and environmental improvements; (iv) engineering, designing, land acquisition, and planning for the construction, and improvement of Interstate Highway 30 between Cooper Street and Ballpark Way with interchange improvements at Center Street, Collins Street and Baird Farm Road, including signage, signalization, street lighting, related storm drainage and environmental improvements; (items (i) through (iv), collectively, the "Project"); and (v) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

Security

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

Optional Redemption

Certificates maturing on and after August 1, 2017, are subject to redemption in whole or in part in principal amounts of $5,000 or any integral multiple thereof prior to maturity at par plus accrued interest to the date of redemption, at the option of the City, on August 15, 2016, or on any date thereafter as described more fully in Section Two herein "Optional Redemption."

Legal Matters

The City will furnish the initial purchaser of the Certificates a complete transcript of certain certified proceedings incident to the issuance and authorization of the Certificates, including a certified copy of the Ordinance containing the continuing disclosure agreement required pursuant to Rule 15c2-12 of the Securities and Exchange Commission, a certified copy of the approving opinion of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and the approving legal opinion of Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel, to like effect and to the effect that (i) the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) the Certificates are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Certificates will not be subject to the alternative minimum tax on individuals and corporations except as described below under "Tax Exemption." In rendering the aforesaid opinion, the Attorney General of the State of Texas will review the transcript of proceedings relating to the Certificates, including the Certificate initially delivered to the initial purchaser or purchasers of such Certificates.

Bond Counsel has not examined and has not investigated or verified any statements, records, material or matters relating to the financial condition or capabilities of the City, and has assumed no responsibility for the preparation or contents of the Official Statement, except that in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement in order to verify that such descriptions conform to the provisions of the Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. Bond Counsel's fee for services rendered with respect to the sale of the Certificates is paid on a "per bond" basis.

The City will furnish to the initial purchaser of the Certificates a certificate, dated as of the date of delivery of the Certificates, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Certificates, or which affect the provisions made for their payments or security or in any manner question the validity of the Certificates.

Litigation

The City is currently involved in an employment lawsuit, Lubke v. City of Arlington, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the "Y2K" weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The City is vigorously contesting this case, which was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case has been argued on appeal and a decision is expected this summer. The range of exposure to the City in the event the jury verdict is affirmed on appeal is $1.1 to 1.5 million dollars. The probability of an unfavorable outcome cannot be determined at this time. Accordingly, no accrual has been made.

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

Delivery

The Certificates are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser or purchasers of the Certificates, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel. Delivery of the Certificates is expected on or about August 22, 2006.

Paying Agent/Registrar

Payments of principal and interest will be payable by Wells Fargo Bank, N.A. (the "Paying Agent/Registrar") to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC participants for subsequent disbursement to the Beneficial Owners of the Certificates, as described in Section Two herein "Book-Entry-Only System."

Ratings

The City has applied to Fitch Ratings, One State Street Plaza, New York, New York, 10004, Moody’s Investors Service, Inc., 99 Church Street, New York, New York, 10007, and Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York, 10041 for credit ratings on the Certificates. The initial credit ratings on the Certificates are set forth on the cover of this Official Statement. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of such rating agency or agencies, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Certificates.

Registration and Qualification

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

Payment Record

The City has never defaulted on its revenue bonds 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.

Sale and Marketability of the Certificates

After requesting competitive bids for the Certificates, the City accepted the bid resulting in the lowest true interest cost, which was tendered by a syndicate managed by UBS Securities LLC (the “Underwriter”), to purchase the Certificates bearing the interest rates shown under “Maturity Schedule,” at a price of par value thereof plus a premium of $2,282.80 and accrued interest to the date of delivery, which resulted in a true interest cost of 4.47 percent. The true interest cost is a percentage rate which, when used to compute the total present value as of the date of the Certificates (July 15, 2006) of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of par value of the Certificates plus any bond premium.

The City has no understanding with the Underwriter regarding the reoffering yields or prices of the Certificates, and has no control over trading of the Certificates after their initial sale by the City. Information concerning reoffering yield or prices is the responsibility of the Underwriter. The Underwriters will provide to the City information relating to the initial offering price of the Certificates. The City will rely on this information for purposes of compliance with the applicable provisions of the Code.

Preparation of Official Statement

Concurrent with the delivery of the Certificates, the City will furnish a certificate dated the date of delivery of the Certificates, signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects, did not and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading, and that no material adverse change has occurred in the financial condition of the City between the date of this Official Statement and the date of delivery of the Certificates other than as contemplated in the Official Statement. Such certificate will also state, however, that such City officials did not independently verify the information indicated in this Official Statement as having been obtained or derived from sources other than the City and its officers but that they have no reason to believe that such information is not accurate. None of the information contained in this Official Statement (with the exception of Appendix B - Financial Section) has been reported on by the City's independent auditors.

THE BOND INSURER

CIFG Assurance North America, Inc.

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc. ("CIFG" or the "Insurer") for inclusion in this Official Statement. CIFG does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding CIFG NA set forth under the heading "The Bond Insurer". CIFG makes no representative regarding the Bonds or the advisability of investing in the Bonds.

General

CIFG is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The address of the principal executive offices of the Insurer is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939 and its website is located at www.cifg.com.

The Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer's New York statutory capital and surplus at no less than $80 million, and may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of "AAA" from Fitch, an insurer financial strength rating of "Aaa" from Moody's, and an insurer financial enhancement rating of "AAA" from Standard and Poor's, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency's current assessment of each company's capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 46 jurisdictions. The Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

Capitalization. The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States ("US GAAP") and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	US GAAP December 31, 2005 (in thousands of US dollars)
Total Assets	$ 324,134
Total Liabilities	$ 202,042
Shareholder's Equity	$ 122,092

	Statutory Accounting Practices December 31, 2005 (in thousands of US dollars)
Admitted Assets	$ 175,333
Liabilities	$ 66,758
Capital and Surplus	$ 108,575

The following table sets forth the capitalization of CIFG Guaranty on the basis of US GAAP.

	US GAAP December 31, 2005	
	(in thousands of euros)	(in thousands of US dollars) (1)
Assets	€ 736,208	$ 871,634
Liabilities	€ 196,794	$ 232,995
Shareholder's Equity	€ 539,414	$ 638,639

(1) The translation of euros into dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2005 of $1.18395 to €1.00. The convenience translation should not be construed as representation that the euro amounts have been, could have been, or in the future could be, converted into U.S. Dollars at this or any rate of exchange.

For further information concerning the Insurer and CIFG Guaranty, see the audited financial statements of both companies, including the respective notes thereto, prepared in accordance with US GAAP as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, and the unaudited interim financial statements of the Insurer as of March 31, 2006 and for the three-month period ended March 31, 2006, which are available on the CIFG Group's website at www.cifg.com. Copies of the most recent audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the holders and Beneficial Owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "Section Three: The City of Arlington; Section Four: Debt Structure and Capital Improvement Program; and Section Five: Financial Information." The City will update and provide this information within six months after the end of each fiscal year ending in or after 2006. The City will provide the updated information to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information depository (“SID”) that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the “SEC”).

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to each NRMISR and any SID. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

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

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. (Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”).

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Certificates only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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 Certificates 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 Certificates 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 Certificates 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 Certificates 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 Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The City has previously made continuing disclosure agreements in connection with the issuance of its bonds and obligations. The City is in compliance with its prior undertakings.

ADDITIONAL INFORMATION

For additional information regarding this document please contact Mr. David Balsamo, Cash and Debt Administrator, City of Arlington, Texas, at (817) 459-6264.

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SECTION TWO: THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

General

The Certificates are dated July 15, 2006, and mature on the dates set forth on the cover of this Official Statement. Interest is payable on February 15, 2007, and on each August 15 and February 15 thereafter. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Security

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

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Certificates is excludable from gross income for federal income tax purposes under existing regulations and (ii) interest on the Certificates 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 Internal Revenue Code of 1986, as amended (the "Code"), imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of certificate proceeds and the source of repayment of Certificates, limitations on the investment of certificate 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 Issuer 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 Certificates for federal income tax purposes and, in addition, will rely on representations by the Issuer and the Issuer's Financial Advisor with respect to matters solely within the knowledge of the Issuer and the Issuer's Financial Advisor, which Bond Counsel has not independently verified. If the Issuer 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 Certificates could become taxable from the date of delivery of the Certificates, regardless of the date on which the event causing such taxability occurs.

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

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 Internal Revenue Service (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 whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount Certificates

The issue price of all or a portion of the Certificates may be less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate 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 Certificate in the initial public offering of the Certificates. 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 Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate 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 Certificates under the caption " Collateral Tax Consequences " generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate 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 Certificate was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (a) the Underwriter has purchased the Certificates for contemporaneous sale to the public and (b) all of the Original Issue Discount Certificates 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 Issuer nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Certificate 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 Certificates 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 Certificate 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 (a) 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 (b) 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 Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Certificates 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 Certificates 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 Certificates.

Book-Entry-Only System - General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange. Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, arid clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect participant records. Beneficial Owners will not receive written confirmations from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation 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 Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

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

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

Book-Entry-Only System - Miscellaneous

The information in the Subsection entitled "Book-Entry-Only System-General" has been obtained by the City from DTC. The City takes no responsibility for the accuracy or completeness thereof. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The City cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

Source of Payment for the Certificates

The opinion of Bond Counsel will state, among other things, that the Certificates constitute valid and legally binding obligations of the City and that an ad valorem tax upon all taxable property of the City necessary to pay the principal of and interest on the Certificates has been levied and pledged irrevocably for such purposes, within the limits prescribed by law, and in addition to said tax, the Certificates and the interest thereon are further secured by a limited pledge of $1,000 of the surplus revenues (the "Surplus Revenues") of the City's water and wastewater system (the 'System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue bonds (now or hereafter outstanding), and any other obligations presently outstanding or hereafter issued which are secured by a superior lien on and pledge of the revenues of the System, all as provided in the Ordinance authorizing the Certificates.

The following is an excerpt from the ordinance authorizing the issuance of the Certificates:

> "Pursuant to the authority granted by the Texas Constitution and the laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year hereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay, when due and payable, the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their payment at maturity or a sinking fund of two percent (2%) per annum (whichever amount is greater), full allowance being made for delinquencies and costs of collection.
>
> The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.
>
> Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance."
>
> "The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:
>
> (a) The City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year of the City, (ii) the amount on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) and (iii) the amount of Surplus Revenues estimated and budgeted to be available for

the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year of the City.

(b) The amount required to be provided in the succeeding Fiscal Year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year of the City exceeds the sum of (i) the amount shown to be on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(c) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year of the City."

The City has covenanted in the Ordinance that Surplus Revenues, to the extent provided in the Ordinance and not to exceed $1,000, are irrevocably pledged to the payment of the principal of and interest on the Certificates as the same become due.

Optional Redemption

The City has reserved the right and option to redeem the Certificates scheduled to mature on or after August 15, 2017, prior to their scheduled maturities, in whole or in part, on August 15, 2016, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amount of $5,000 or any integral multiple thereof. If less than all of the Certificates 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 Certificates are in Book-Entry-Only form) shall determine by lot which of the Certificates of such maturities, or portions thereof, shall be redeemed. If any Certificate (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificates (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.

Holders' Remedies

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

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, __ S.W.3rd __ (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." 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 Certificateholders 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 interest of the Certificateholders 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"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders 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 Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

Registration

Registration and Payment. The Certificates will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Certificates. Principal and semiannual interest on the Certificates 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 Certificates, then “Owner” shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Certificates, the term “Owner” shall refer to a successor securities depository or the Beneficial Owners of the Certificates which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Certificates will be payable to the Owner at maturity upon presentation to the Paying Agent/Registrar. Interest on the Certificates 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 last 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 Certificates 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 Certificates and a successor securities depository is not appointed by the City, the Certificates 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 Certificate may be assigned by execution of an assignment form on the Certificates or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Certificate in accordance with the provisions of the Ordinance. Such new Certificates must be in the denomination of $5,000 for any one maturity or any integral multiple thereof. The last assignee's claim of title to the Certificate must be proved to the satisfaction of the Paying Agent/Registrar.

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

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Local Government Code, V.T.C.A., and to the Ordinance passed by the City Council on the date of sale of the Certificates, to which reference is herein made.

Authorized Permanent Improvement Bonds

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

	(amounts in thousands)		
Election Purpose	**Authorized Amount**	**Previously Issued**	**Remaining to be Issued**
1993 Library Mobile and Portable Facilities	$ 570	$ -	$ 570
1997 Park and Recreation	37,860	37,400	460
1999 Street and Transportation	85,520	84,440	1,080
2003 Fire	4,935	2,250	2,685
2003 Library	2,435	1,185	1,250
2003 Police	10,935	2,270	8,665
2003 Street and Transportation	83,635	-	83,635
2003 Traffic Management Cameras	400	-	400
2003 Erosion Control	1,900	-	1,900
2005 Park and Recreation	13,600	-	13,600
	$ 241,790	$ 127,545	$ 114,245

No Litigation Certificate

The City will furnish to the Underwriters a certificate, dated as of the date of delivery of the Certificates, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Certificates, or which affects the provisions made for their payment or security, or in any manner questions the validity of the Certificates.

LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Certificates (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial 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 Certificates 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, the Public Funds Investment Act (Texas Government Code, Chapter 2256), requires that the Certificates be assigned a rating of "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 Certificates 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 Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

SECTION THREE: THE CITY OF ARLINGTON

INTRODUCTION

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 98.7 square miles and approximately three quarters of a mile are contained within its extra-territorial jurisdiction.

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

General

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

Mayor and City Council

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

Administration

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

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

Certain City Council Appointees

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

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

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

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

Principal Executive Officers

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

Deputy City Manager – Mr. Ron Olson – with the City since November 2004, received his B.S. and his M.P.A. from Brigham Young University. He is a member of the International City/County Management Association. Prior to joining the City, he served as the City Manager of Middletown, Ohio, Belding, Michigan and West Jordan, Utah.

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

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

Interim Deputy City Manager – Dr. Theron Bowman – with the City since 1983, has been the police chief since March 1999. He received a Bachelors Degree in Biology, a Master’s Degree in Public Administration, and a Ph.D. in Urban and Public Administration.

Interim Chief Financial Officer – Mr. Chuck Springer – with the City since May, 1988, he received a B.A. from Indiana University in Psychology and a Master’s Degree in Public Administration from the University of North Texas. Prior to joining the City, he worked as Assistant Town Manager for the Town of Flower Mound, Texas.

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

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

Governmental Services and Facilities

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

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

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

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

FUNCTIONAL GROUPS

Neighborhood Services Group

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

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 146,891 calls for service in fiscal year 2005. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 1999.

The City's Fire Department, which is responsible for fire prevention, fire suppression and first response emergency medical services, responded to approximately 27,788 calls for service in fiscal year 2005. The 301 employees of the Fire Department provide emergency responses from the City's 16 fire stations. Fire has responsibility for 9-1-1 dispatch services. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City and will also report to the Deputy City Manager.

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

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

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,652 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and for the management of the Bob Duncan Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical and cultural needs of the citizens of Arlington.

Economic Development Group

The Deputy City Manager for Economic Development is responsible for oversight and management of three departments and two outside organizations. The City functions covered by the Economic Development Group include Economic Development, Community Development and Planning, and the Convention Center. They also oversee the City’s contracts with the Convention and Visitors Bureau and the Arlington Chamber of Commerce.

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

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

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

Capital Investment Group

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

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

The Water Utilities Department is responsible for assuring a continuous supply of high quality water and a safe and adequate wastewater service. Arlington's water treatment operations are nationally known and are recognized for their use of advanced technology. Transmission capacity has been designed to anticipate future peak demands well into the century. The Department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

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

Strategic Support Group

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

Management Resources oversees the budget division, and the City Secretary’s Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. It will be responsible for improving legislative and lobbying efforts. It works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs. It also includes General Services which provides printing, copying, records management, and mailroom services to the organization.

Financial Services oversees the financial affairs of the City and ensures the financial integrity of City operations. Departmental services include accounts payable, accounting, payroll, purchasing, treasury management, and maintenance of the City's fixed asset inventory.

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

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

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

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2005 estimated population for the City of Arlington is 361,300. 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	7,692	-- %	150,697,361	-- %
1960	44,775	19.3	178,464,236	1.71
1970	90,229	7.3	203,211,926	1.31
1980	160,113	5.9	226,545,805	1.09
1990	261,721	5.0	248,765,170	0.94
2000	332,969 (1)	2.4	281,421,906	1.40
2003	351,719	1.9	290,809,777	1.11
2004	355,630	1.1	293,655,404	1.01
2005	361,300	1.6	296,410,404	.94

(1) Actual 2000 Census population.

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

Per Capita Personal Income

	2004	2003	2002
Tarrant County	$32,735	$31,054	$31,307
Texas	30,732	29,074	29,039
United States	33,050	31,472	30,906

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

Educational Facilities

Public education is provided principally by the Arlington Independent School District which overlaps all but a small portion of the City. The public schools feature six high schools, twelve junior high schools, fifty elementary schools, one pre-kindergarten campus, one immigrant education campus, one alternative school and three discipline-management campuses. A professional staff of 4,086 serves a peak enrollment of 62,267 students.

The University of Texas at Arlington, founded in 1895, has a current enrollment of 25,432 students and offers 189 degree programs at the bachelor, master, and doctoral levels. The physical plant, located on a 396 acre campus, includes 107 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. The 193-acre site features a current enrollment of approximately 9,355 students and has 758 employees. The college offers Associate degrees in Arts, Applied Sciences, and various Technical certificates.

Summarized below is information concerning the Arlington Independent School District's annual peak enrollment and the percentage changes for the last ten fiscal years.

Public School Enrollment
Arlington Independent School District

Fiscal Year	Peak Enrollment	Percentage Change
1997	53,757	2.67%
1998	54,961	2.24
1999	56,234	2.32
2000	57,433	2.13
2001	59,342	3.32
2002	60,760	2.39
2003	62,104	2.21
2004	62,345	0.39
2005	62,531	0.30
2006	62,267	(0.42)

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	8,000
University of Texas at Arlington	Higher Education	5,700
Six Flags Over Texas	Amusement Park	3,200[(1)]
General Motors	Automobile Assembly	3,000
City of Arlington	Municipality	2,310
Chase Bank	Banking Services	1,900
Arlington Memorial Hospital	Medical Center	1,300
Texas Rangers Baseball Club	Sports Entertainment	1,800[(1)]
Americredit	Finance	1,300
Providian Financial	Financial Services	1,200
National Semiconductor	Semiconductor Manufacturer	1,100
Doskocil Manufacturing	Manufacturer	1,000

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

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

As illustrated in the table below, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2005, the City's unemployment rate averaged 5.0 percent compared to the U.S. rate of 5.1 percent and the Texas rate, which was 5.4 percent.

Unemployment Rate
Annual Average Rates
2001 to 2005

	2005	2004	2003	2002	2001
Arlington	5.0%	5.0%	5.7%	5.4%	3.7%
Texas	5.3	6.0	6.8	6.3	4.8
United States............................	5.1	5.7	6.0	6.3	4.8

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

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

Building Permits

During the FY 2005 the City issued 5,708 building permits with a total value of $333,226,177. Presented below is a table covering building permit activity for the last three fiscal years:

	2005		2004		2003	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,367	$189,234	1,707	$251,102	1,719	$242,753
Duplex	10	1,306	21	2,568	22	2,802
(No. of Units)	(20)		(42)		(44)	-
Apartments	15	11,425	60	36,303	16	18,170
(No. of Units)	(183)		(912)		(250)	-
Commercial	414	75,003	474	60,439	431	95,549
Institutional	45	25,149	47	49,089	73	51,926
Alterations and Additions	111	7,243	188	18,812	158	28,323
Signs	1,175	2,593	1,431	2,737	1,168	2,227
Miscellaneous	2,571	21,273	2,890	22,647	3,314	38,664
Total	5,708	$333,226	6,818	$443,697	6,901	$480,414

Source: City Building Inspections Division.

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Investment Policies

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

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 May 31, 2006, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
U.S. Treasury Notes & Bills	50.7%
Federal Agencies	36.7
Statewide Pool	11.0
Money Market Account	1.6
Totals	100.0%

As of May 31, 2006, the weighted average maturity of the City's operating portfolio was 195 days and the market value of the operating portfolio was 99.70 percent of its book value.

SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

TAX-SUPPORTED DEBT

DEBT STATEMENT

Pursuant to the Constitution and laws of the State of Texas and the Charter of the City, the City is authorized to issue general obligation bonds secured by an ad valorem tax on all property within its boundaries subject to local taxation. A tax rate limitation is imposed by the Home Rule Section of the Texas Constitution, Article XI, Section 5, that allows a maximum tax rate of $2.50 per $100.00 assessed valuation.

The following table details the ad valorem tax-supported debt of the City as of May 31, 2006:

Total Outstanding Tax-Supported Debt	$270,075,000
General Obligation Commercial Paper Notes, Series 2005	2,000,000
Certificates of Obligation, Series 2006	8,780,000
Total Tax-supported Debt	$280,855,000
Less Self-Supporting Debt [1]	11,591,448
Net Tax-Supported Debt	$269,263,552

[1] See "Debt Service Requirements -- Net Tax-Supported Debt."

Source: City Financial Services Department.

DEBT INFORMATION

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

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

Key Debt Ratios
Fiscal Years 1996-2005

Fiscal Year	Estimated Population [1]	Taxable Assessed Valuation Calendar Year [2]	Net Tax-Supported Debt Year Ended September 30 [3]	Ratio of Net Tax-Supported Debt Per Capita	Ratio of Net Tax-Supported Debt Assessed Valuation
1996	286,293	$ 9,703,921,853	$234,180,000	$818	2.41%
1997	289,315	10,180,990,795	248,949,000	860	2.45
1998	293,991	10,868,585,827	251,622,000	856	2.32
1999	309,859	11,415,146,297	268,633,000	867	2.35
2000	332,969 [4]	12,435,152,758	276,879,000	832	2.23
2001	339,215	13,513,378,507	286,398,601	844	2.12
2002	346,197	14,344,001,305	284,539,762	822	1.98
2003	351,719	15,018,724,599	283,792,540	807	1.89
2004	355,634	15,599,320,395	280,766,546	789	1.80
2005	361,300	16,143,581,172	258,483,552	715	1.60

(1) Population estimates are based on percent of occupancy in available residences and census data. The method for estimating occupancy rates was revised beginning in 1999.
(2) Taxable assessed valuation is obtained from the certified value as of September of each year including minimum estimated value of property under protest.
(3) These figures do not include self-supporting debt.
(4) Actual 2000 Census population.

Source: City Financial Services Department.

Rapidity of Principal Retirement [1]
All General Obligation Debt

Maturing Within	Amount Maturing	Percent of Total Debt Outstanding
5 years	$117,645,000	41.9%
10 years	209,395,000	74.6
15 years	265,865,000	94.7
21 years	280,855,000	100.0

(1) As of May 31, 2006, includes $2,000,000 in outstanding Commercial Paper Notes. See “SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM – General Obligation Commercial Paper Program.”

Source: City Financial Services Department.

DEBT SERVICE REQUIREMENTS

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

Fiscal Year Ending 9/30	Outstanding Bonds [1]		Commercial Paper [2]		Certificates of Obligation Series 2006 [3]		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2006	$ 26,160,000	$ 6,438,104	$ -	$ 27,547	$ -	$ -	$ 32,625,651
2007	23,920,000	11,708,994	2,000,000	60,828	495,000	382,522	38,567,343
2008	22,905,000	10,598,000	-	-	495,000	370,160	34,368,160
2009	21,015,000	9,474,006	-	-	495,000	347,885	31,331,891
2010	19,665,000	8,468,611	-	-	495,000	325,610	28,954,221
2011	19,665,000	7,548,694	-	-	495,000	303,335	28,012,029
2012	19,120,000	6,606,207	-	-	490,000	281,060	26,497,267
2013	18,005,000	5,674,572	-	-	485,000	259,010	24,423,582
2014	16,990,000	4,828,183	-	-	410,000	237,185	22,465,368
2015	15,680,000	4,006,534	-	-	410,000	218,735	20,315,269
2016	14,230,000	3,257,811	-	-	410,000	200,285	18,098,096
2017	12,975,000	2,563,371	-	-	410,000	183,475	16,131,846
2018	10,845,000	1,929,490	-	-	410,000	166,255	13,350,745
2019	9,565,000	1,404,702	-	-	410,000	148,625	11,528,327
2020	6,805,000	934,216	-	-	410,000	130,688	8,279,903
2021	5,145,000	600,950	-	-	410,000	112,750	6,268,700
2022	3,685,000	355,319	-	-	410,000	94,300	4,544,619
2023	2,495,000	175,776	-	-	410,000	75,850	3,156,626
2024	1,205,000	55,731	-	-	410,000	56,888	1,727,619
2025	-	-	-	-	410,000	37,925	447,925
2026	-	-	-	-	410,000	18,963	428,963
	$270,075,000	$ 86,629,266	$ 2,000,000	$ 88,375	$ 8,780,000	$ 3,951,504	$371,524,145

(1) As of May 31, 2006. Includes self-supporting debt.

(2) Although the current outstanding Commercial Paper Notes mature in September, the principal will not be paid at this time. The Notes will be rolled over until they are refunded with proceeds from the expected issuance of Permanent Improvement Refunding Bonds in summer 2007. The interest on the Commercial Paper Notes is calculated at 3.48%, the rate on the Notes outstanding.

(3) Estimated at an average interest rate of 4.66% for illustration purposes and FY 2007 is net of accrued interest.

Source: City Financial Services Department.

NET TAX SUPPORTED DEBT

Fiscal Year Ending 9/30	Outstanding General Obligation Debt [1]		Self Supporting Debt[2]		Total Debt Service
	Principal	Interest	Principal	Interest	
2006	$ 26,160,000	$ 6,465,651	$ 610,000	$ 270,077	$ 31,745,574
2007	26,415,000	12,152,343	640,000	512,646	37,414,697
2008	23,400,000	10,968,160	670,000	485,265	33,212,895
2009	21,510,000	9,821,891	700,000	457,108	30,174,783
2010	20,160,000	8,794,221	735,000	432,348	27,786,873
2011	20,160,000	7,852,029	744,870	403,234	26,863,925
2012	19,610,000	6,887,267	782,875	369,811	25,344,581
2013	18,490,000	5,933,582	825,234	334,024	23,264,324
2014	17,400,000	5,065,368	870,684	295,336	21,299,348
2015	16,090,000	4,225,269	912,571	252,299	19,150,399
2016	14,640,000	3,458,096	956,680	206,711	16,934,705
2017	13,385,000	2,746,846	1,003,438	158,553	14,969,855
2018	11,255,000	2,095,745	1,048,855	107,544	12,194,346
2019	9,975,000	1,553,327	1,091,241	54,562	10,382,524
2020	7,215,000	1,064,903	-	-	8,279,903
2021	5,555,000	713,700	-	-	6,268,700
2022	4,095,000	449,619	-	-	4,544,619
2023	2,905,000	251,626	-	-	3,156,626
2024	1,615,000	112,619	-	-	1,727,619
2025	410,000	37,925	-	-	447,925
2026	410,000	18,963	-	-	428,963
	$ 280,855,000	$ 90,669,145	$ 11,591,448	$ 4,339,518	$ 355,593,179

(1) As of May 31, 2006, except including the Certificates.

(2) Includes $8,236,448 of the Permanent Improvement Refunding Bonds, Series 2005 (the "Series 2005 Refunding Bonds") which has historically been paid with hotel occupancy tax revenues and $3,355,000 Combination Tax and Revenue Certificates of Obligation, Series 1998, payable from a combination of hotel occupancy tax revenues and ad valorem taxes as described under "Hotel Occupancy Tax Certificates of Obligation" below. To the extent that such revenues are insufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax.

Hotel Occupancy Tax Certificates of Obligation

The Combination Tax and Revenue Certificates of Obligation, Series 1998, are currently outstanding in the aggregate principal amount of $3,355,000 and payable from (1) the proceeds of a continuing direct ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City, and (2) a portion of the revenues derived by the City from the hotel occupancy tax. The hotel occupancy tax presently is levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, as amended, and V.T.C.A., Tax Code, Chapter 351.

The Combination Tax and Revenue Certificates of Obligation, Series 1998, pledge the "Surplus Revenues" of the City's hotel occupancy tax levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, and V.T.C.A., Tax Code, Chapter 351, remaining after payment of all current and future debt obligations payable in whole or in part from the City's hotel occupancy tax receipts. The following excerpt from the ordinance authorizing the Combination Tax and Revenue Certificates of Obligation, Series 1998, describes the method of payment:

"The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(a) the City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year of the City, (ii) the amount on deposit in the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) and (iii) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year of the City.

(b) The amount required to be provided in the succeeding Fiscal Year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year of the City exceeds the sum of (i) the amount shown to be on deposit in the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(c) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year of the City."

The City also will use hotel occupancy taxes to pay a portion of the debt service on the Series 2005 Refunding Bonds. Based on a calculation of the pro rata share of debt service on the Series 2005 Refunding Bonds, the hotel occupancy tax will provide $388,871 of the total debt service on the Series 2005 Refunding Bonds from October 1, 2005 through fiscal year 2006.

In the fiscal year 2006 Budget, the City estimates that $4,300,000 of Hotel Occupancy Tax will be received by the City which exceeds the $1,150,154 of debt service requirements on Combination Tax and Revenue Certificates of Obligation, Series 1998, and the allocable portion of Series 2005 Refunding Bonds. As shown in the section hereof entitled "Tax Data - Hotel Occupancy Tax Receipts," Hotel Occupancy Tax Revenues in the fiscal years 2000 through 2005 have been more than adequate to pay debt service requirements on the Hotel Occupancy Tax Certificates and Bonds.

Tax Adequacy

The following analysis as of May 31, 2006, assumes 98 percent collection of ad valorem taxes levied against the City's fiscal year 2006 Net Assessed Valuation, and future Hotel Occupancy Tax collections at a level sufficient to pay debt service on the Combination Tax and Revenue Certificates of Certificates of Obligation, Series 1998, and the allocable portion of the Series 2005 Refunding Bonds.

Average Annual Requirement (2006/2026)	$16,933,009
A tax rate of $0.1071 per $100 assessed valuation produces	16,943,980
Average Annual Requirement (2006/2015)	27,625,740
A tax rate of $0.1747 per $100 assessed valuation produces	27,638,780
Maximum Annual Requirement (2007)	37,414,697
A tax rate of $0.2365 per $100 assessed valuation produces	37,415,978

GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM

The City Council authorized the issuance of its General Obligation Commercial Paper Notes, Series A (the "Commercial Paper Notes") on May 24, 2005 in an aggregate principal amount not to exceed $30 million for voter approved capital projects (see "SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM – Tax-Supported Capital Improvement Program" for a description of the approved capital projects for the Commercial Paper Notes). As of May 31, 2006, the City has issued $2,000,000 in Commercial Paper Notes. The liquidity provider for the principal portion of the Commercial Paper Notes is Bank of America, N.A.

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

ESTIMATED OVERLAPPING DEBT

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

Overlapping Debt
(amounts in thousands)

Taxing Jurisdiction	Amount[1]	As of	Percent[2]	Amount
City of Arlington [3]	$269,264	5-31-06	100.00 %	$ 269,264
Arlington Independent School District	523,355	8-31-05	78.16	409,054
Tarrant County	165,340	9-30-05	18.08	29,893
Tarrant County Junior College District	63,714	8-31-05	18.08	11,519
Tarrant County Hospital District	35,354	9-30-05	18.08	6,392
Kennedale Independent School District	53,702	8-31-05	20.91	11,229
Mansfield Independent School District	476,756	8-31-05	11.66	55,590
Hurst-Euless-Bedford I.S.D.	226,367	8-31-05	3.90	8,828
Total Direct and Overlapping Debt [4]				$801,770
Overlapping debt as a percent of FY 2006 assessed value		5.0%		
Overlapping debt per capita		$2,219		
Per capita overlapping debt as a percent of 2004 County per capita personal income		6.8%		

[1] Source: Net debt outstanding per representative of each jurisdiction.

[2] Source: Texas Municipal Reports, compiled and published by Municipal Advisory Council of Texas.

[3] See "Debt Statement."

[4] Substantially all of the City's residents are located within the Arlington I.S.D. Although Fort Worth I.S.D. also has taxing jurisdiction within a portion of the City, reference to this district has been intentionally omitted because less than 1 percent of its total debt is paid by residents of the City.

TAX-SUPPORTED CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program ("CIP") provides for multi-year improvements to the City's public facilities along with the means of financing these improvements. The City's Capital Improvement Program, prepared annually, is primarily driven by recent bond election results. The City's most recent permanent improvement bond election was held on May 7, 2005. The proposition on the ballot for Parks for $13,600,000 was approved by the voters. Combined with the authorized but unissued bonds from prior elections, the City has $114,245,000 in unissued permanent improvement bonding authority.

The approved CIP is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for those needs. The City's tax-supported CIP for fiscal year 2006 is budgeted at $27,165,000. The projects include $22,190,000 for Streets and Transportation improvements, $1,965,000 for Police facilities, $1,955,000 for Park and Recreation improvements, $550,000 for Technology System improvements, $255,000 for Fire facilities, and $250,000 for Library improvements. The City is planning to use its authorized commercial paper program, and a $8,780,000 certificate of obligation issue to finance the tax-supported CIP.

Capital Improvement Program
Bond Elections (1993, 1997, 1999, 2003, and 2005)
and 2006 Certificate Sale
(amounts in thousands)

	Estimated Total Costs	Total Financing To Date	CO Issuance	Total Amount Remaining [1]	Percent of Total Amount Remaining
Sources					
General Obligation Bonds /Commercial Paper Notes, Series 2005	$168,275	$54,030		$114,245	100.0%
2006 Certificates of Obligation	8,780	-	8,780	-	-
Total	$ 177,055	$ 54,030	$ 8,780	$ 114,245	100.0%

	Estimated Total Costs	Total Financing To Date	CO Issuance	Total Amount Remaining [1]	Percent of Total Amount Remaining
Uses					
Library	$ 3,005	$ 1,185	$	$ 1,820	1.6%
Parks and Recreation	51,460	37,400		14,060	12.3
Streets, Storm Drainage and Transportation	95,640	10,925		84,715	74.0
Police	10,935	2,270		8,665	7.6
Fire	4,935	2,250		2,685	2.4
Erosion Control	1,900	-		1,900	1.7
Traffic Mgmt. Cameras	400	-		400	0.4
Transportation Cert. of Obligation	8,320	-	8,230	-	
Technology Cert. of Obligation	550	-	550	-	
Total	$ 177,145	$ 54,030	$ 8,780	$ 114,245	100.0%

[1] Total amount remaining includes $28,000,000 in authorized, but unissued commercial paper notes in the amounts of $500,000 for Library, $2,500,000 for Parks and Recreation, $17,000,000 for Streets, $7,000,000 for Police and $1,000,000 for Fire.

SECTION FIVE: FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) did not award a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2004. The City has been awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2003. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2005.

ACCOUNTING STANDARDS

The basic financial statements are prepared in conformity with GASB Statement No. 34 (Statement No. 34) 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 or account group, 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 noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group. 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. 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. Accordingly, the accounting and financial reporting of the City’s General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City’s financial statements, although the format of financial statements has been modified by Statement No. 34. The following major funds are used by the City:

Governmental Funds

The following is a description of the Governmental Funds of the City:

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. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. Street capital project fund accounts for the financing and acquisition of right of way and construction of streets and related facilities. Funds are provided primarily through bond sales, and interest earnings. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

Proprietary Fund

The following is a description of the City's Proprietary Fund:

Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Other Fund Types

The City additionally reports for the following Fund types:

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. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

Component Units

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. Component Units discretely presented include the Arlington Sports Facilities Development Authority, Inc., the Arlington Housing Authority, the Arlington Housing Finance Corporation, the Arlington Convention & Visitors Bureau, Inc., and the Arlington Industrial Development Corporation. The following component units have been blended with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City. These are the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income Plan and Part-Time Deferred Income Trust.

CERTAIN OPERATIONS OF THE GENERAL FUND

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

Summaries for fiscal years 2001 to 2005 have been compiled from the Comprehensive Annual Financial Reports of the City, which were examined by the City's independent auditors. These summaries should be read in conjunction with their related financial statements and notes.

Schedule of Revenues and Expenditures-General Fund
Fiscal Year Ended September 30
(amounts in thousands)

	2005	2004	2003	2002	2001
Beginning Fund Balance	$ 25,317	$ 20,806	$ 20,707	$ 21,661[1]	$ 18,221
Revenues					
Ad Valorem Taxes	62,701	58,972	51,958	46,026	40,593
Sales Tax	40,072	39,664	38,695	41,173	44,436
Other Taxes [2]	1,435	4,021	3,718	3,649	3,487
Franchise Fees	28,928	29,371	29,163	29,635	31,201
Service Charges	5,781	4,696	5,388	5,648	4,822
Interest	1,501	380	499	803	1,241
All Other	16,742	15,004	14,716	15,522	10,283
Total Revenues	157,160	152,172	144,137	142,456	136,063
Expenditures					
Total Expenditures	164,724	152,923	146,946	144,316	133,496
Net Revenues Over (Under) Expenditures	(7,564)	(751)	(2,809)	(1860)	2,567
Other Financing Sources					
Issuance of Capital Leases	1,626	—	—	—	—
Operating Transfers [2]	32,678	5,262	2,908	906	(1,129)
Ending Fund Balance	$ 52,057	$ 25,317	$ 20,806	$ 20,707	$ 19,659

(1) Restated Fund Balance due to reclassification of prior year liabilities.
(2) Prior to FY 2005 Payment in Lieu of Taxes was included in Other Taxes. Beginning in FY 2005 it is included in Operating Transfers.

For the fiscal year ended September 30, 2005, the General Fund had revenues, lease issuances and transfers greater than expenditures by $26,740,000, or 17.0 percent of General Fund revenues, leaving a General Fund balance at September 30, 2005, of $52,057,000. The following table presents a comparison of the City's General Fund balance for fiscal years 2001 to 2005.

General Fund Balance
Fiscal Year Ended September 30
(amounts in thousands)

	2005	2004	2003	2002	2001
General Fund Balance:					
Reserved for					
Encumbrances	$ 3,230	$ 1,786	$ 656	$ 1,526	$ 1,379
Inventory	254	113	112	279	336
Prepaids	46	46	67	48	24
Infrastructure Maintenance	-	-	-	-	-
Park Acquisition	-	-	-	-	-
Utility Rate Case	500	500	500	500	500
Special Transportation	-	-	-	-	-
Net Increase in Fair Value	-	-	-	-	-
Unreserved – Designated for					
Telecommunications	274	329	102	754	357
Working Capital	14,373	13,585	12,981	12,195	11,389
Subsequent Years' Expenditures	5,174	5,018	4,821	3,429	2,633
Arbitrage	12	38	320	824	-
Compensated absences	1,125	1,411	1,247	1,152	-
Other Post Employment Balances	1,718	1,718	-	-	-
Designated for landfill lease proceeds	19,887	-	-	-	-
Undesignated	5,464	773	-	-	3,041
Total General Fund Balance	$ 52,057	$ 25,317	$ 20,806	$ 20,707	$ 19,659
General Fund Balance as a Percent of General Fund Expenditures	31.60%	16.56%	14.16%	14.35%	14.73%

Source: Fiscal Year 2001 to 2005 Comprehensive Annual Financial Reports.

DEBT SERVICE FUND BUDGET
Fiscal Year 2006
(amounts in thousands)

Beginning Fund Balance	$ 3,576
Property Tax Revenue	36,078
Interest Revenue	585
Transfers In (1)	2,255
Debt Service Expenditures	(39,389)
Estimated Ending Fund Balance	$ 3,105

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

Source: Fiscal Year 2006 Budget and Financial Services Department.

CURRENT OPERATING BUDGET

On September 13, 2005, the City Council adopted a total Budget for fiscal year 2006 with expenditures of $315,964,648. The adopted General Fund Budget reflects a property tax rate of $0.6480/$100.

The adopted Budget for fiscal year 2006 maintains core services levels and programs within tight financial constraints. Raises, based on merit, were between 1% and 4% and were included in the adopted budget. The overall value of taxable property in the City increased by 3.5 percent, from $15.599 billion in fiscal year 2005 to $16,144 billion in fiscal year 2006. The adopted Budget authorizes City government personnel of 2,310 full-time positions, a reduction of 32 positions from the fiscal year 2005 budget. This reduction was mainly due to the lease of the City's landfill.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2006, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2006 Budget [1]
(amounts in thousands)

	Fiscal Year 2006 Budget	Percent of Fiscal Year 2006 Budget
REVENUES		
Property Taxes	$104,794	32.2%
Sales Tax	40,440	12.5
Other Taxes	1,500	0.5
Licenses and Permits	4,674	1.4
Utility Franchise Fees	30,678	9.5
Fines and Forfeitures	8,060	2.5
Leases and Rents	4,927	1.5
Services Charges	10,436	3.2
Miscellaneous Revenues	2,764	0.9
Water and Sewer Fund Revenues	91,636	28.2
Convention & Event Services Fund Revenues	6,683	2.1
Street Maintenance Fund	10,136	3.1
Park Performance Fund	7,770	32.2
Total Revenues	$324,498	100.0%
EXPENDITURES		
General Government	17,323	5.5%
Police	59,874	18.9
Fire	31,891	10.1
Neighborhood Services	5,886	1.9
Planning and Development Services	4,842	1.5
Parks and Recreation	14,936	4.7
Public Works	12,588	4.0
Library	5,779	1.8
Administrative and Support Services	19,357	6.1
Water and Sewer Fund	79,463	25.2
Convention & Event Services Fund	4,984	1.6
Park Performance Fund	7,368	2.3
Street Maintenance Fund	12,285	3.9
Debt Service	39,389	12.5
Total Expenditures	$315,965	100.0%

[1] All funds combined, excludes interfund transfers.

Source: Fiscal Year 2006 Budget.

GENERAL FUND REVENUES AND EXPENDITURES

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

TAX DATA

General

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

Authority for Ad Valorem Taxation

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 in population, limits the ad valorem tax rate to $2.50 per $100 assessed valuation for all city purposes and makes no allocation of such tax rate between debt service requirements and expenses of general city government. The City operates under a Home Rule Charter that adopts these provisions of the Constitution. For fiscal year 2006, the Council levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2236 was allocated to pay debt service on outstanding tax-supported Bonds and notes. See "Tax Rate Distribution."

Truth-in-Taxation Limitation

The effective tax rate is the rate that will produce the same amount of operating revenue that the City levied the prior year on the same property. If the tax rate adopted for the next succeeding fiscal year exceeds the effective tax rate by more than eight percent, the qualified voters of the City may petition for an election to determine whether to limit the increase of the tax rate to no more than eight percent. The City is required to hold public hearings to permit voter discussion should the proposed tax rate levy taxes in excess of the amount levied the prior fiscal year.

Property Subject to Taxation

All real property and tangible personal property in the City is subject to taxation except for certain mandated and discretionary exemptions granted pursuant to State law and the Property Tax Code. The Property Tax Code mandates exemption of public property, property exempt by federal law from ad valorem taxes, household goods, personal effects of an individual, and certain property of religious and charitable organizations, schools, and disabled veterans. The Property Tax Code authorizes cities to exempt the residential homestead of those over 65 years of age and the disabled. The Council currently exempts up to $60,000 of the appraised value of such residential homesteads. The FY 2006 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $745,015,264.

Article VIII, Section 1-b of the Texas Constitution provides the City with the authority to exempt a percentage of the market value of residential homesteads. The percentage may not exceed 20 percent in FY 2006 and each subsequent year. Where an ad valorem tax has previously been pledged for the payment of debt, the Council may continue to levy and collect the tax against the value of the exempt homesteads until the debt is discharged if the cessation of the levy would impair the obligation. The Council granted 20 percent residential homestead exemptions on the FY 2006 tax roll, which totaled $1,775,655,775, or 11.0 percent of the FY 2006 taxable assessed valuation. In addition, $66,364,333 of value was reduced from the FY 2006 tax rolls in accordance with State law to reflect value of agricultural land based upon production rather than market value.

Section 23.83 of the Property Tax Code allows taxes to be deferred on property that is restricted to scenic use. Deferrals were first claimed under this section in 1990. The FY 2006 tax roll reveals a value loss of $2,881,565 due to scenic deferrals.

Chapter 312 of the Property Tax Code allows the Council to designate reinvestment zones and to enter into tax abatement agreements with property owners within these zones. The abatement value loss on the FY 2006 tax roll is $312,216,195. A schedule of abated values for the FY 2006 by property owners is as follows:

Property Owner	FY 2006 Abatement Value
General Motors	$164,033,689
Americredit	33,438,857
Siemens Logistics	22,266,145
National Semiconductor	17,240,401
J P Morgan Chase Bank	14,213,858
Petula/Aetna	12,813,014
Dallas MTA LP	9,009,362
RTG Furniture of Texas LP	8,299,397
Prologis North American Properties	7,938,446
Mackie Automotive Inc.	4,917,225
For 1031 Arlington, LLC	4,721,102
Collins Walton Buckner LP	4,623,016
Primera	2,640,816
Campbell, James Est	2,318,926
Lear Operations	1,974,817
McLane Food Service	1,767,124
	$312,216,195

With the passage of Proposition 5 on November 7, 1989, the State Constitution was amended to allow for the taxation of temporarily located inventory on a local option basis. To continue taxation of this so called "freeport" property, the governing body of a taxing entity, such as the Council, was required to take action prior to January 1, 1990. The Council adopted an ordinance, which allowed for the continued taxation of "freeport" property for 1990 and subsequent years. On January 13, 1998, the Council repealed the aforementioned ordinance, which has the effect of exempting “freeport” property from taxation effective January 1, 1999. This exemption is irrevocable under current State law. The amount of "freeport" assessed value subject to exemption for the FY 2006 tax roll was $236,539,632.

Tax Increment Financing Districts

The City Council adopted an ordinance on November 3, 1998, establishing a tax increment financing district (the “TIF District #1”) encompassing approximately 533 acres in the City’s downtown area. The TIF District took effect on January 1, 1999 and will terminate on December 31, 2018. The City Council can terminate the TIF District at an earlier date by subsequent ordinance. The tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 1998. The TIF District has a nine-member board of directors, five appointed by the City of Arlington and four members appointed by the other taxing jurisdictions. The board of directors shall prepare and adopt a project plan and reinvestment zone financing plan for the TIF District and submit such plans to the City for its approval. All eligible tax jurisdictions are participating for the full amount of their maintenance and operations portion of their respective tax rates. The City’s tax increment payments for FY05 totaled $589,962.

The City Council adopted an ordinance on September 27, 2005, establishing a tax increment financing district (the “TIF District #2”) encompassing approximately 2,000 acres in the northeast quadrant of the City. The TIF District took effect on January 1, 2006 and will terminate on December 31, 2036. The City has established the Tax Increment Reinvestment Zone (“TIRZ”) but has not set the participation level. The City currently is in discussions with other taxing jurisdictions regarding their participation.

The City Council adopted an ordinance on October 11, 2005, establishing a tax increment financing district (the "TIF District #3") encompassing approximately 210 acres on the eastern side of the City. The TIF District took effect on January 1, 2006 and will terminate on December 31, 2020. The City has agreed to a 70% participation level of the City's tax increment of real property taxes. The City currently is in discussions with other taxing jurisdictions regarding their participation.

The City Council adopted an ordinance on November 8, 2005, establishing a tax increment financing district (the "TIF District #4") encompassing approximately 320 acres in the City's south central area. The TIF District took effect on January 1, 2006 and will terminate on December 31, 2025. The City has agreed to a 75% participation level of the City's tax increment of real property taxes and .25 percent of the City's 1.00 percent general sales tax above the Sales Tax Base. The City currently is in discussions with other taxing jurisdictions regarding their participation.

Appraisal of Taxable Property

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumed the responsibility of appraising all taxable property and preparing and certifying the tax rolls for each unit of government that levies ad valorem tax in that county. Under the 1981 amendment to the Property Tax Code, the City is now entitled to vote, in the proportion to its taxes levied in Tarrant County, in selecting the governing board of appraisal district. A city, or other taxing unit, may challenge the appraisals assigned to property within its jurisdiction under certain limited circumstances. These entities can also sue the appraisal district to compel it to comply with the Property Tax Code.

The City's FY 2006 appraisal roll was prepared and certified by the Tarrant Appraisal District's Chief Appraiser and Appraisal Review Board. Such appraisal rolls are used by the City in establishing its tax rate. The City Council is responsible for setting the rate, levying and collecting the taxes. All taxable property in the City is presently valued on the City's tax roll at 100 percent of its estimated market value as of January 1, 2005. The rate of taxation was determined and set by the Council based upon the January 1, 2005 valuation. Taxes are due October 1 of the subject year and become delinquent after January 31 of the following year, except for a split payment option. Under the split payment option, adopted by the City beginning with fiscal year 2003, taxpayers can make one-half payment prior to December 1, and the final one-half payment prior to July 1 of the following year without penalty or interest. Since October 1, 2002 ad valorem taxes for the City have been collected by the Tarrant County Tax Assessor-Collector.

City's Rights in the Event of Tax Delinquencies

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

Tax Limitation Election

A City election was approved on February 5, 2005, which adopted a homestead property tax limitation for disabled individuals and individuals 65 years of age or older. This limitation on the residential homesteads of qualifying property owners is defined under the Texas Property Tax Code, section 11.621. The limitation can not be repealed by any action of the City or through an election of the City under current state law. The homestead property tax ceiling limits the amount of taxes paid to the City based on the taxes paid in the first year that the property qualifies for the disabled exemption or the 65 years of age or older exemption. The limitation is a dollar amount and does not increase unless improvements are made to the residential homestead. For those property owners who qualified in 2005 for either exemption, the tax ceiling was set based on the taxes levied in September 2005 by the City. The tax ceiling carries forward to a surviving spouse age 55 or older of an individual who is 65 years of age or older.

The City has 67,539 residential homestead properties in FY 2006 and 12,811 (19.0%) of these properties received an exemption for a disabled individual or individual 65 years of age or older.

Tax Revenue

The following table shows the City's principal tax revenues by source for each of the last five fiscal years. Growth in total tax revenues has averaged 2.6 percent per year over the last five years.

Principal Tax Revenue by Source
Fiscal Years 2001 to 2005
(amounts in thousands)

Fiscal Year	General Fund Ad Valorem Taxes	General Fund Sales Tax	Franchise Fees	Hotel Occupancy Tax	Other Taxes [1]	Total
2001	$40,593	$44,436	$31,201	$4,676	$3,487	$124,393
2002	46,026	41,173	29,635	4,118	3,649	124,601
2003	51,958	38,695	29,163	3,910	3,718	127,444
2004	58,972	39,664	29,371	3,981	4,021	136,009
2005	62,701	40,072	28,928	4,530	1,435	137,666

(1) Prior to FY 2005 Payment in Lieu of Taxes was included in Other Taxes. Beginning in FY 2005 it is included in Operating Transfers.

Source: City Financial Services Department.

The following table sets forth the assessed value of all taxable property less exemptions in the City for each of its five most recent fiscal years. Tax-exempt properties owned by Federal and State governments, churches, and schools, totaling $1,771,366,386 for fiscal year 2006, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions for fiscal year 2006 is $16,143,581,172. This value is obtained from the certified taxable value as of September of each year including minimum estimated value of property under protest.

Historical Taxable Assessed Value [1]
Fiscal Years 2002 to 2006

Fiscal Year	Real Property Taxable Assessed Value	Percentage Change From Prior Year	Personal Property Taxable Assessed Value	Percentage Change From Prior Year	Total Taxable Assessed Value	Percentage Change From Prior Year
2002	$11,304,546,333	9.28%	$2,208,805,174	5.65%	$13,513,378,507	8.67%
2003	12,099,808,133	7.03	2,244,193,172	1.60	14,344,001,305	6.15
2004	12,899,757,009	6.61	2,118,967,590	(0.56)	15,018,724,599	4.70
2005	13,349,818,463	3.49	2,249,501,932	6.16	15,599,320,395	3.86
2006 [2]	13,930,395,955	4.35	2,213,185,217	(1.61)	16,143,581,172	3.49

(1) Real and personal property is assessed at 100 percent of fair market value. Total taxable assessed value excludes abated value.
(2) Total Taxable Assessed Value is the certified roll as of July 25, 2005.

Source: City Financial Services Department.

Tax Rate Distribution
Fiscal Years 2002 to 2006

	2006	2005	2004	2003	2002
General Fund	$.4244	$.4023	$.3879	$.3879	$.3620
Debt Service Fund	.2236	.2457	.2601	.2601	.2720
Total	$.6480	$.6480	$.6480	$.6340	$.6340

Source: City Financial Services Department.

Collection Ratios
Fiscal Years 2001 to 2005

Fiscal Year	Net Assessed Valuation[(1)]	Tax Rate	Tax Levy	% Collections[(2)] Current Year	Prior Years	Year Ending
2001	$12,435,152,758	0.6340	$78,838,868	98.56%	100.82%	9-30-01
2002	13,513,378,507	0.6340	85,674,820	98.30	99.92	9-30-02
2003	14,344,001,305	0.6480	90,940,968	98.15	99.89	9-30-03
2004	15,018,724,599	0.6480	97,321,335	99.60	101.26	9-30-04
2005	15,599,320,395	0.6480	101,083,596	97.85	100.22	9-30-05
2006 [(3)]	16,143,581,172	0.6480	104,610,406	96.41	97.93	9-30-06

(1) Net Assessed Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.
(2) Prior year's collections include current year collections, prior year delinquent collections and all penalty and interest collections.
(3) 2006 collections are actual through June 30, 2006.

Source: City Financial Services Department.

Analysis of Delinquent Taxes
as of September 30, 2005

Fiscal Year	Tax Levy	Uncollected	Percentage of Levy
2005	$101,083,596	$1,433,041	1.42%
2004	97,321,335	643,713	.66
2003	90,940,968	423,170	.47
2002	85,674,820	334,160	.39
2001	78,838,868	231,800	.29
2000	72,828,633	206,527	.28
1999	69,341,578	173,970	.25
1998	64,954,721	167,958	.26
1997	62,105,100	172,472	.28
1996	58,374,990	114,996	.20
1995	54,305,297	137,923	.25
1994	53,777,666	150,616	.28
Prior to 1994	N/A	799,901	N/A
		$4,990,247	

Source: City Financial Services Department

Tax Base Distribution
Fiscal Years 2002 to 2006

	2006	2005	2004	2003	2002
Residential	62.1%	62.2%	61.8%	59.5%	57.1%
Commercial, Industrial, Retail	35.9	35.7	35.9	37.8	39.8
Undeveloped	2.0	2.1	2.3	2.7	3.1

Source: City Financial Services Department.

Top Ten Taxpayers

Name	Type of Business	2006	2005	2004
General Motors Corporation[1]	Auto Assembly	$ 203,386,682	$ 188,003,133	$ 202,560,640
Parks at Arlington LP	Real Estate Holdings	141,738,142	126,550,000	122,381,889
Oncor Electric Delivery Co.	Public Utility	136,421,713	141,840,575	147,290,009
McKesson Drug Co.	Pharmaceutical	112,737,838	107,250,236	181,900,322
Southwestern Bell Telephone Co.	Public Utility	77,454,056	78,646,166	92,064,327
Texas Flags/Six Flags Over Texas	Amusement Park	71,611,786	70,400,254	80,676,418
HCA – Arlington Inc.	Healthcare	62,640,029	63,434,113	35,300,000
National Semiconductor[1]	Computer Chip Mfg.	46,609,756	64,188,696	33,626,030
USMD Surgical Hospital	Healthcare	46,094,895	35,561,251	-
Lincoln Square, Ltd	Real Estate Holdings	40,100,000	33,633,400	-
Don Davis	Auto Dealership & Real Estate Holdings	-	-	50,112,393
EQR - Limited Partnership	Real Estate Holdings	-	-	32,265,000
Total		$ 938,794,897	$ 909,507,824	$ 978,177,028
Above ten taxpayers as % of total tax rolls		5.82%	5.83%	6.51%

(1) See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreement for 2006 abatement values.

Source: City Financial Services Department.

Tax Abatements

Assessed Value of Tax Abatement Agreements

Fiscal Year	Total Assessed Valuation Abated
1997	$191,058,280
1998	257,260,096
1999	369,707,519
2000	377,017,981
2001	359,001,468
2002	561,859,024
2003	509,488,606
2004	381,607,734
2005	331,596,017
2006	312,216,195

Source: City Financial Services Department.

Municipal Sales Tax

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

Fiscal Year	Sales Tax Receipts	Ad Valorem Tax Levy	Sales Tax as a % of Ad Valorem Tax Levy	Population Estimate	Per Capita Sales Tax Collection
2000	$43,383,927	$72,828,633	60%	332,969 [(1)]	$130.29
2001	44,436,164	78,838,868	56	339,215	131.00
2002	41,172,479	85,674,820	48	346,197	118.93
2003	38,695,033	90,940,968	43	351,719	110.02
2004	39,663,609	97,321,335	41	355,634	111.53
2005	40,072,031	101,083,596	40	361,300	110.91

(1) Actual 2000 Census population.

Source: City Financial Services Department.

Hotel Occupancy Tax Receipts

Under the provisions of Section 351.002 and 351.003 of the Texas Tax Code, the City is authorized to levy and collect a hotel occupancy tax not to exceed seven percent of the price paid for a room in a hotel in the City which costs $2 or more per day and is ordinarily used for sleeping (the "Hotel Occupancy Tax") to pay for or finance a variety of public improvements, including, specifically, convention center facilities. Section 351.103(b) of the Texas Tax Code states that the Hotel Occupancy Tax revenue allocated by the municipality cannot exceed 15 percent for the encouragement, promotion and application of the arts and cannot exceed 15 percent for historical preservation projects or activities. The City has levied a Hotel Occupancy Tax of seven percent since 1983. On November 2, 2004 an election was approved under Chapter 334 of the Texas Local Government Code to increase the Hotel Occupancy Tax by two percent for the Dallas Cowboys Complex Development Project. The additional two percent can only be used for this purpose and became effective on April 1, 2005. **The additional two percent is not reflected in the table below**.

The Series 2005 Refunding Bonds and the Combination Tax and Revenue Certificates of Obligation, Series 1998 are payable in part from the Hotel Occupancy Tax. Set forth below are the revenues received by the City from the seven percent Hotel Occupancy Tax for the last five years.

Fiscal Year	Hotel Occupancy Tax Receipts
2001	$4,675,990
2002	4,118,312
2003	3,909,501
2004	3,980,814
2005	4,530,102

Source: City Financial Services Department.

Dallas Cowboys Complex Development Project

On November 2, 2004, a majority of the voters of the City voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Dallas Cowboys Complex Development Project (the "Project") within the City and (i) to impose a sales and use tax within the City at a rate of one-half of one percent (0.5%), (ii) to impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle, (iii) to impose a tax on the occupancy of a room in a hotel located within the city, at a maximum rate of two percent (2%) of the price paid for such room, (iv) to impose an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate not to exceed ten percent (10%) of the price of the ticket, and (v) to impose a tax on each parked motor vehicle parking in a parking facility of the Project at a maximum rate not to exceed three dollars ($3.00) per vehicle. The City's contribution to the Project is the lesser of $325,000,000 or fifty percent (50%) of the Project's cost.

On September 1, 2005, the City issued $297,990,000 Dallas Cowboys Complex Special Obligations (the "Obligations") in three series (Series 2005A, Series 2005B and Series 2005C) for this project. The remainder of the City's $325,000,000 share of project costs, if necessary, will come from excess sales, hotel and short term motor vehicle rental tax as well as interest earned on bond proceeds. The Obligations are limited obligations of the City, secured by a lien on and pledge of certain Pledged Special Taxes. Pledged Special Taxes consist of amounts received from the levy and collection of (i) a local sales and use tax of one-half of one percent (0.5%) (the "Sales Tax"); (ii) a five percent (5%) tax on the short-term rental in the City of a motor vehicle (the "Motor Vehicle Rental Tax"); and (iii) a two percent (2%) tax on hotel rooms located within the City (the "Hotel Tax"). The Series 2005C Bonds are additionally secured by and payable from the Pledged Rent which consists of annual rental payments of $2,000,000 received under the Lease and five percent (5%) of certain naming rights proceeds, not to exceed $500,000 annually, derived, if at all, from the sale by the Tenant of naming rights for the Cowboys Complex

The Obligations are ***not*** secured by any mortgage or security interest in the Cowboys Complex or any of the revenues thereof or by any property of the Dallas Cowboys, the National Football League, or any of their affiliates, owners or partners, or, except as expressly provided herein, by the City, the State or any agency, political corporation or subdivision thereof and neither the faith and credit of any of them has been pledged to the payment of the Obligations.

The table below displays the revenues from the collection of the 0.5% Sales Tax, 5.0% Motor Vehicle Rental Tax, and the 2.0% Hotel Tax. The taxes were collected for six months during fiscal year 2005 beginning on April 1, 2005.

Dallas Cowboy Complex Project Tax Revenues

FY	Sales Tax	Motor Vehicle Rental Tax	Hotel Tax	Total Taxes
2005	$10,199,454	$366,959	$730,787	$11,297,200

The City further anticipates the issuance of $139,745,000 of City of Arlington, Texas Dallas Cowboys Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006, on or before September 1, 2006. The Bonds will be secured by (i) an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate of not to exceed ten percent (10%) of the price of a ticket, (ii) a tax on each parked motor vehicle parking in a parking facility of the Project at a maximum rate not to exceed three dollars ($3.00) per vehicle and (iii) any and all amounts received pursuant to and all right, title and interest of the City in and to the a Admissions And Parking Taxes Collection, Guaranty And Security Agreement executed between the City and Cowboys Stadium, L.P., the tenant under the Lease.

PENSION FUND

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 774 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/04):

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

Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2005, the City's annual pension cost of $14,671,901 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included: (a) 9.7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/03	$14,117,102	100.00%	-
9/30/04	13,955,035	100.00	-
9/30/05	14,671,901	100.00	

OTHER POST-EMPLOYMENT BENEFITS

The City currently provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City, as described in Notes to the Financial Statements, Section IV: Detailed Notes on All Funds – 5. Pension and Employee Benefits Plans, set forth in Appendix B. During Fiscal Year 2006, 555 retirees met the eligibility requirements for benefits and expenditures of $2,919,198 were recognized for postretirement health care. The City intends to comply with the requirements of GASB No. 43 and No. 45, with respect to the reporting of post-employment benefits, in accordance with the timelines set forth in GASB No. 43 and No. 45. As of the date of this Official Statement, the City has not retained the services of an actuarial firm to prepare calculations required under GASB No. 43 and No. 45, but intends to do so in anticipation of implementing the requirements of GASB No. 43 and No. 45.

SELF INSURANCE

As of November 1, 1986, the City of Arlington became fully self-insured for General, Auto, Public Officials, and Law Enforcement Liability coverages. The self-insurance plan provides for $1 million per occurrence coverage with a $3 million annual aggregate loss limit. In the absence of commercial liability insurance at reasonable cost, alternative measures for funding liability claims expense had to be developed. Arlington officials created a fully funded self-insurance program by issuing taxable municipal obligations. An actuarial study performed by the Wyatt Company, Dallas, Texas, determined that the City of Arlington would need $9.9 million to cover statistically predictable liability losses incurred between November 1, 1986, and November 1, 1996. Obligations were issued in the principal amount of $9,000,000 and the City contributed $1,000,000 from its General Fund. On January 12, 1999, the City issued

$7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue have been used to recapitalize the City's self-insurance program. The annual actuarial study in May 1999 estimated that the $7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004. The City annually receives a report from its actuary indicating the adequacy of the funding of the City's self-insurance program. The most recent report received by the City on November 16, 2004, reflects that the self-insurance program should be adequately funded from funds currently on deposit through September 30, 2006.

On September 13, 2005, Ordinance 05-076 was passed by the Mayor and City Council, which extended the City's self-insurance and risk management program through September 30, 2006. Prior to such date it is anticipated the City Council will review the program for extension.

As of September 30, 2005, the total current assets less accounts payable and estimated current claims payable were $3,428,000. The estimated non-current claims payable (long term claims) at September 30, 2005 were $1,660,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverage's remain commercially insured.

EXECUTION

This Official Statement was approved and the execution and delivery of this Official Statement authorized by the City of Arlington, Texas on July 25, 2006.

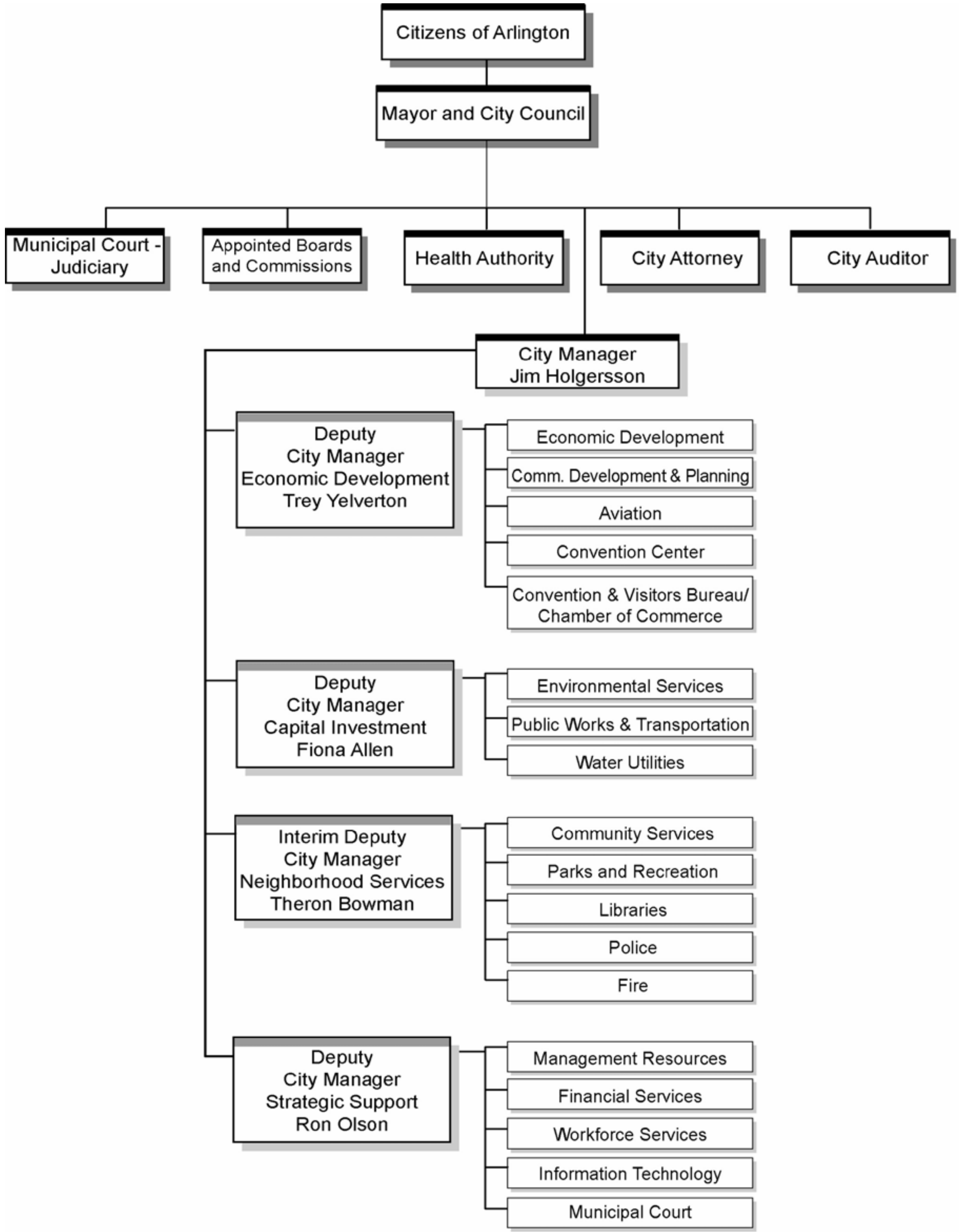
/s/ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

/s/ Barbara Heptig
City Secretary
City of Arlington, Texas

APPENDIX A

City of Arlington Organization Chart



APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS
OF THE CITY OF ARLINGTON
FISCAL YEAR 2005

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2005 may be obtained from the City's Interim Chief Financial Officer.

CITY OF ARLINGTON, TEXAS
BASIC FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
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, 2005, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the internal service fund financial statements for the Arlington Property Finance Authority Fund or the Workers' Compensation Fund, which statements reflect total assets constituting 11.88% and 22.25%, respectively of total internal service fund assets as of September 30, 2005, and total operating revenues constituting 1.32% and 11.56%, respectively of total internal service fund revenues for the year then ended. We did not audit the component unit financial statements of the Arlington Housing Authority or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 11.89% and 1.01%, respectively of total component unit assets as of September 30, 2005 and total operating revenues constituting 80.08% and 10.54%, respectively of total component unit revenues for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Property Finance Authority Fund, Workers' Compensation Fund, Arlington Housing Authority and Arlington Convention and Visitors Bureau, Inc. is solely based on the report of such other auditors.

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

In our opinion, 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 as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statements for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Required Supplemental Information as described in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Arlington's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

February 17, 2006

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

SEPTEMBER 30, 2005

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, 2005. It should be read in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City of Arlington's net assets of governmental activities increased by $60.9 million or 14.4 percent this year, primarily because of an increase in the City's cash and investments of approximately $312.3 million. The City has higher cash and investment balances this year compared to last year due to the issuance of debt for the Dallas Cowboys Complex Development Project (Complex Project) in addition to revenues exceeding expenditures in the General Fund.

- The City's increase in total net assets of $52.3 million for the year ended September 30, 2005 was $7.6 million higher than the increase of $44.7 million for the year ended September 30, 2004. This $7.6 million is primarily attributable to a ½ cent sales tax increase which went into effect in April 2005 to help fund the City's portion of the Complex Project.

- As of September 30, 2005, the City of Arlington's governmental funds reported combined ending fund balances of $420.3 million, an increase of $300.1 million in comparison with the prior fiscal year. The majority of this change is due to increases in fund balance for the new Stadium Venue Fund of $268.9 million. Revenues exceeding expenditures in the General Fund account for the remaining increase in fund balance.

- At the end of the current fiscal year, unreserved General Fund balance was $48.0 million compared to $22.9 million last year. Last year, all but $0.7 million of unreserved fund balance was designated for various purposes such as working capital requirements and subsequent years' expenditures. This year, after designating fund balance for these purposes, and designating $19.9 million related to landfill lease proceeds, $5.5 million remained undesignated.

- The City's total debt of $672.4 million has increased $289.8 million during the fiscal year. The City issued $68 million of permanent improvement refunding Bonds, Series 2005, $5.3 million of combination tax and revenue certificates of obligation, Series 2005, $17 million of water and wastewater system revenue bonds and $297.9 million of Dallas Cowboys Complex special tax revenue bonds. Of the total debt, $578.2 million relates to the operation of the general government and $94.2 million relates to water and wastewater activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Arlington's basic financial statements. The City of Arlington's basic financial statements are comprised of four components: government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information. This 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 of the City of Arlington's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Arlington's 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 of the City of Arlington is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal 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 only 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 as opposed to the modified accrual basis.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

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

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

- Component Units – The City includes five separate legal entities in its report – Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Convention and Visitors Bureau, Arlington Housing Finance Corporation and Arlington Industrial Corporation. Although legally separate, these component units are important because the City is financially accountable for them. In fiscal year 2005, the City completed its GASB Statement No. 34 conversion of the discretely-presented component unit Arlington Sports Facilities Development Corporation, Inc. ("ASFDA") from a governmental fund to a proprietary fund by recognizing all previously deferred revenue, restating beginning net assets for ASFDA.

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 City's two kinds of funds - governmental and proprietary – utilize different accounting approaches.

- Governmental funds – 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 detailed in a reconciliation following the fund financial statements.

  The City of Arlington maintains twenty-four 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 Stadium Venue Fund, all of which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- Proprietary funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information such as cash flows. The internal service funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities, such as the City's general services, the City's self-insurance funds and fleet maintenance functions. Because these services benefit both governmental as well as business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

The City of Arlington maintained two individual enterprise funds through April 30, 2005, at which time the City outsourced the landfill operations and transferred the remaining net assets into the General Fund. Currently, the City maintains one individual enterprise fund. The City uses this enterprise fund to account for its water and sewer operations. The fund provides the same type of information as the government-wide financial statements, only in more detail and includes some of the internal service fund type activity. The proprietary fund financial statements provide separate information for the water and sewer, which is considered to be a major fund of the City.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for its 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. The 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. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees.

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $894.9 million as of September 30, 2005. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business- type activities net assets are $410.6 million. This analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (88.3 percent) 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.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Current and other assets	$ 483	$ 157	$ 82	$ 101	$ 565	$ 258
Capital assets	647	612	436	422	1,083	1,034
Total assets	1,130	769	518	523	1,648	1,292
Long-term liabilities	586	291	85	83	671	374
Other liabilities	60	55	23	21	83	76
Total liabilities	646	346	108	104	754	450
Net assets:						
Invested in capital assets, net of related debt	409	318	381	351	790	669
Restricted	20	3	10	9	30	12
Unrestricted	55	102	20	59	75	161
Total net assets	$ 484	$ 423	$ 411	$ 419	$ 895	$ 842

Governmental Activities

The City's general revenues increased when compared to the prior year by 10.7 percent or $20.4 million. The primary reason for this increase was due to a $11.9 million or 7.5 percent increase in overall tax revenue. $10.7 million of this increase is attributable to the ½ cent sales tax increase, effective April 2005, to help fund the City's portion of the Dallas Cowboy Complex. Property tax revenue increased $2.5 million due to increased property valuations and the addition of new property throughout the City. The assessed value of the property in the City increased by $580.6 million or 3.9 percent while the property tax rate of $0.6480 per $100 assessed valuation remained the same as in 2004. Interest income increased $3.7 million due to an increase in interest rates plus interest earned on the proceeds from the Dallas Cowboys Complex bonds. Other revenue increased primarily because of the receipt of a trust as part of the landfill outsourcing.

Table 2
General Revenues
(Amounts Expressed In Thousands)

	2005	**2004**	**Increase (Decrease)**
Property Taxes	$ 101,235	$ 98,708	$ 2,527
Sales Taxes	60,476	49,786	10,690
Other Taxes	7,286	8,649	(1,363)
Utility franchise fees	28,928	29,321	(393)
Interest income	5,642	1,957	3,685
Other revenue	7,986	2,690	5,296
Total general revenues	$ 211,553	$ 191,111	$ 20,442

Governmental and Business-type activities increased the City's net assets by $52.3 million for the year ended September 30, 2005 and $44.7 million for the year ended September 30, 2004. The key elements of these increases are as follows:

Table 3
Changes in Net Assets
(Amounts Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	$36,105	$ 33,669	$ 96,628	$ 95,207	$ 132,733	$ 128,876
Operating grants and contributions	8,144	7,758	-	-	8,144	7,758
Capital grants and contributions	4,849	5,730	3,676	6,656	8,525	12,386
General Revenues:						
Taxes	168,997	157,143	-	-	168,997	157,143
Utility franchise fees	28,928	29,321	-	-	28,928	29,321
Other	13,628	4,647	1,199	1,119	14,827	5,766
Total revenues	260,651	238,268	101,503	102,982	362,154	341,250
Expenses:						
General government	26,906	30,646	-	-	26,906	30,646
Public safety	97,645	93,852	-	-	97,645	93,852
Public works	64,369	55,350	-	-	64,369	55,350
Public health	2,416	1,321	-	-	2,416	1,321
Parks and recreation	23,262	20,633	-	-	23,262	20,633
Public welfare	6,383	5,410	-	-	6,383	5,410
Convention and event services	5,435	5,347	-	-	5,435	5,347
Interest and fiscal charges	13,898	14,548	-	-	13,898	14,548
Water and sewer	-	-	65,220	67,232	65,220	67,232
Landfill	-	-	4,310	2,207	4,310	2,207
Total expenses	240,314	227,107	69,530	69,439	309,844	296,546
Increase in net assets before transfers	20,337	11,161	31,973	33,543	52,310	44,704
Transfers	40,563	7,238	(40,563)	(7,238)	-	-
Increase in net assets	60,900	18,399	(8,590)	26,305	52,310	44,704
Net Assets, October 1, as restated	423,378	404,979	419,207	392,902	842,585	797,881
Net Assets, September 30	$ 484,278	$ 423,378	$ 410,617	$ 419,207	894,895	$ 842,585

The most significant governmental expense for the City was in the area of public safety, which incurred expenses of $97.6 million, representing a $3.8 million increase when compared to the prior fiscal year. The components of public safety are police and fire. Police accounted for $64.1 million in public safety expense this year compared to $60.6 million last year, a 5.8 percent increase. Salary and benefits of $54.8 million comprised 85.5 percent of Police expense for the year ended September 30, 2005 as compared to salary and benefit expense of $51.4 million equaling 84.8 percent of last year's expense. The increase in salary and benefit expense is the result of a combination of general pay increases and a one-time five percent salary payment to eligible employees. These expenses were offset by revenues collected from a variety of sources, with the largest amount coming from fines and forfeitures, which were $6.3 million for the fiscal year ending September 30, 2005, a decrease of $1.0 million or 13.7 percent. Fines and forfeitures revenues decreased in 2005 due to performance issues with the implementation of the new Municipal Court system. The City continues to work to resolve the software performance issues and revenues are projected to increase for 2006. Fire accounted for $33.1 million in public safety expense this year, compared to $31.6 million last year, an increase of 4.7 percent. Salary and benefits of $28.4 million made up 85.8 percent of Fire expense for the year ended September 30, 2005 compared to salary and benefit expense of $27.0 million comprising 85.4 percent of last year's expense. The increase in salary and benefit expense is primarily attributable to general pay increases and the one-time five percent salary payment.

Other significant governmental expenses for the City include public works at $64.4 million for the year ended September 30, 2005 compared to $55.4 million last year, a 16.2 percent increase. This increase is primarily attributable to an increase in expenditures for street maintenance. This year, salary and benefits was $17.2 million and depreciation expense was $28.0 million compared to last year's expense which included $16.5 million in salary and benefits and $28.5 million in depreciation expense.

Business-type Activities

Revenues of the City's business-type activities were $101.5 million for the fiscal year ending September 30, 2005. Revenues decreased by approximately $1.5 million or 1.4 percent. Expenses for the City's business-type activities were $72.1 million for the year, an increase of $2.6 million or 3.7 percent. The decrease in net revenues is due to less than a full year of activity in the landfill as a result of the negotiated operating lease with Republic Waste Services of Texas Ltd.

The City's water and sewer system recorded charges for services of $92.1 million, an increase of $3.6 million over last year, and a non-cash revenue source of $3.7 million of capital contributions that represent developer contributions. Developer contributions represent subdivision infrastructure, which upon completion, is contributed to the resources of the City. Excluding developer contributions, the water and sewer system charges for services of $92.1 million exceeded expenses of $65.2 million by $26.9 million. The most significant expenses of the water and sewer fund were $10.8 million to purchase water, $15.9 million for the purchase of sewage treatment and $13.8 million in salaries and benefits. Overall the City's water and sewer system's net revenues of $28.1 million (including developer contributions) for this year were substantially unchanged higher from last year's net revenue of $27.6 million.

The City's landfill activity recorded charges for services of $4.5 million and expenses of $4.3 million through April 30, 2005. The City entered into an agreement with Republic Waste Services of Texas, Ltd. effective May 1, 2005 to lease the landfill. At that time, the City's interest in the remaining net assets was transferred to the General Fund. Under the 20-year lease agreement, (with one 20 year renewal), the City received a one-time payment of $15 million and will receive annual usage fees of approximately $1.7 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2005, the City had $1.08 billion invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of $49.0 million or 4.7 percent over the prior fiscal year. The $49.0 million increase combines a $35.1 million increase in Governmental Activities with a $13.9 million increase in Business-type Activities. The increase in Governmental Activities is mostly due to $31.1 in capital outlay related to initial work on the Complex Project. The balance of the increase is the result of transferring the assets of the landfill to the General Fund. The increase in Business-type Activities is due to increased capital outlays for the water and sewer system. Footnote 4 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

Table 4
Capital Assets, net of Accumulated Depreciation
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 80,600	$ 71,831	$ 4,828	$ 10,950	$ 85,428	$ 82,781
Buildings and improvements	113,746	111,836	1,922	3,441	115,668	115,277
Equipment	16,192	15,427	395	1,259	16,587	16,686
Construction in progress	149,522	102,931	76,520	82,310	226,042	185,241
Infrastructure	286,654	309,626	-	-	286,654	309,626
Water and sewer system	-	-	352,660	324,437	352,660	324,437
Totals	$ 646,714	$ 611,651	$ 436,325	$ 422,397	$ 1,083,039	$ 1,034,048

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

- Private developer capital contributions of $3.7 million to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments
- Capital outlay of $31.1 million for the Complex Project.
- Water and sewer system capital improvements and expansion totaling $33.1 million
- A variety of street maintenance, storm drainage, and street construction projects with capital outlay totaling $11.2 million

- Various capital outlays totaling $8.1 million for improvement of the City's parks and recreation facilities

- Various capital outlays of $1.6 million for police and fire public safety improvements

Debt

At year-end, the City had $672.4 million in General Obligation Bonds, Special Obligation Bonds, Revenue Bonds and Combination Tax and Revenue Certificates of Obligations outstanding, a substantial increase from last years' $382.6 million as shown in Table 5.

Table 5
Outstanding Debt
(Amounts Expressed In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the City)	$ 252,027	$ 260,555	$ -	$ -	$ 252,027	$ 260,555
Combination tax and revenue certificates of obligation (backed by the City)	20,590	34,745	-	-	20,590	34,745
Special tax revenue bonds	305,609	-			305,609	-
Revenue bonds (backed by fee revenues)	-	-	94,206	87,309	94,206	87,309
Totals	$ 578,226	$ 295,300	$ 94,206	$ 87,309	$ 672,432	$ 382,609

During the current fiscal year the City issued debt in March and August of 2005. The new debt resulted primarily from the issuance of special tax revenue bonds in the amount of $297.9 million for the purpose of paying a portion of the costs of construction of the Complex Project. The City also issued general obligation permanent improvement refunding bonds in the amount of $68 million used to refund a portion of the City's outstanding debt and $5.3 million of combination tax and revenue certificates of obligation for technology upgrades and municipal building renovations. Additionally, the City issued $17.0 million in water and wastewater system revenue bonds for the purpose of improving and extending the water and wastewater system. Footnote 6 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

The City has maintained its AA rating from Standard and Poor's Corporation, its AA rating from Fitch, Inc. and its Aa2 rating from Moodys Investor Services on its tax supported debt. The City also has an AA- rating from Standard and Poor's Corporation, an Aa3 rating from Moodys Investor Service and an AA+ from Fitch, Inc. on its outstanding water and wastewater revenue bonds. The 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 1.7 percent.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over $300,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors. Claim liability was $11.5 million at September 30, 2005 compared to $11.0 million at September 30, 2004.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2005, the governmental funds of the City reported a combined fund balance of $420.3 million. This ending balance includes an increase in fund balance of $26.7 million in the City's General Fund. The General Fund was able to post this increase in fund balance primarily because of assets transferred from the Sanitary Landfill Fund made possible by the landfill lease agreement with Republic Waste Services of Texas, LTD. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of $20.2 million increased $17.2 million over last year. This increase is primarily attributable to the addition of the Dallas Cowboys Complex stadium debt service to the fund and a combination of higher property tax revenue and lower interest expenditures this year compared to last year.

- The City recorded proceeds of $300 million for the issuance of revenue bonds and expended $31 million in capital outlay, for a net fund balance of $269 million in the Stadium Venue Fund, a new fund created to account for the City's portion of construction for the Complex Project.

- The City's water and sewer fund net assets of $410.2 million increased by $25.2 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $24.6 million.

- In fiscal 2005, the City changed its method of revenue recognition for impact fees and has recognized revenue upon receipt for these imposed non-exchange transactions, restating beginning fund balance for two non-major funds.

General Fund Budgetary Highlights

During FY 2004-05, there were no budget amendments for the General Fund.

For FY 2004-05, actual expenditures on a budgetary basis were $169.1 million compared to the budget amount of $173.9 million. The $4.7 million positive variance was due to savings achieved through a series of expenditure restrictions imposed by the City Manager's Office during the year.

For FY 2004-05, actual revenues on a budgetary basis were $163.4 million as compared to the budget amount of $163.7 million.

The City of Arlington has an actual on a budgetary basis General Fund balance of $49.4 million as of the fiscal year-end, compared to the budgeted fund balance of $21.1 million. The variance in fund balance is primarily due to the leasing of the landfill and the unbudgeted transfer of the landfill's assets to the General Fund as well as cost containment measures implemented by management.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the business-type activities. One of the most significant factors is the City's recent revenue trends. Eighty percent of the City's General Fund revenue is made up of property taxes, sales taxes, electric and telephone franchise fees. Telephone and electric franchise fees continue to decline due to consumers taking advantage of more efficient technologies which reduce utility usage. Sales tax revenue is no longer declining as it has in prior years, however, the City experienced only a 1.0% increase in sales tax receipts this year over last year. Assessed property tax values continue to grow, but at a slower rate than previous years. All of these factors result in recurring revenues not growing at a pace equal to the growth in recurring expenditures.

The City has made an effort to reduce and align expenditures to better fit revenue growth. As a result, the City's total General Fund revenues for 2005-2006 are budgeted at $171.6 million, up 4.8% over the 2004-2005 budget, while total General Fund expenditures are $172.4 million, down 0.8% for the same time period.

The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2006 is $0.6480 per $100 valuation, unchanged since 2004. Of this tax rate, 65.5 percent or $0.4244 is utilized for General Fund activities. The remaining 34.5 percent or $0.2236 is used for debt service. The General Fund's portion of property tax revenue for FY 2006 is estimated to be $68.1 million up $6 million or 9.6 percent compared to last year. The City's portion of the sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is received by the Street Maintenance Fund, and one-half cent provides for the debt service for the Complex Project debt. Sales tax revenue for the General Fund for fiscal year 2006 is estimated at $40.4 million, up $1.4 million or 3.5 percent over last year's budgeted figure.

The largest revenue source for the Water and Sewer Fund is water sales at $46.6 million. This is the charge for potable water used by customers. The City maintains a rate structure designed to ensure that each category of service is self supporting. The rate structure incorporates conservation rates designed to encourage consumers to reduce the amount of water they use. Residential conservation rates for fiscal year 2006 range from $1.36 per 1,000 gallons for the first 2,000 gallons of consumption to $2.80 per 1,000 gallons of consumption. The rate for fiscal year 2005 ranged from $1.50 per 1,000 gallons for the first 2,000 gallons of consumption to $2.79 per 1,000 gallons of consumption. These rates incorporate the cost of raw water, treatment, distribution and maintenance costs. The lower commodity rates for water consumption will be offset by higher monthly fixed rates. The second largest revenue source for the Water and Sewer fund is wastewater treatment charges. The total revenue expected is $38.8 million based on a fiscal year 2006 rate of $2.43 per 1,000 gallons, $0.01 higher than last year's rate of $2.42 per 1,000 gallons. The total revenue for the Water and Sewer Fund is budgeted at $91.6 million for fiscal year 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Arlington, 201 E. Abram St., Suite 800, Arlington, TX 76010.

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 158,613	$ 12,526	$ 171,139	$ 3,931
Investments	2,429	-	2,429	10,494
Receivables (net of allowance for uncollectibles):				
Taxes	4,776	-	4,776	-
Sales taxes	12,687	-	12,687	-
Grants	-	-	-	163
Leases	-	-	-	19,389
Trade accounts	149	6,457	6,606	-
Franchise fees	6,809	-	6,809	-
Unbilled trade accounts	-	7,157	7,157	-
Special assessments	363	-	363	-
Accrued interest	751	-	751	8
Settlement agreement	-	-	-	11,445
Other	3,131	132	3,263	169
Internal balances	(405)	405	-	-
Due from component units	127	-	127	-
Due from other governments	3,427	-	3,427	-
Deferred charge - issuance costs	3,112	-	3,112	-
Inventory of supplies	335	432	767	10
Prepaid expenses	231	-	231	1,720
Restricted assets-				
Cash	35,640	-	35,640	90
Bond contingency-				
Investments	10,128	11,564	21,692	-
Accrued interest receivable	41	48	89	-
Capital construction-				
Investments	234,970	39,512	274,482	-
Accrued interest receivable	1,625	-	1,625	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	3,996	3,996	-
Closure/Post-closure trust fund	4,330	-	4,330	-
Capital Assets-				
Land	80,600	4,828	85,428	-
Buildings and improvements	177,085	2,833	179,918	2,739
Water and sewer system	-	503,723	503,723	-
Machinery and equipment	46,525	9,827	56,352	1,056
Infrastructure	729,648	-	729,648	-
Construction in progress	149,522	76,520	226,042	-
Accumulated depreciation	(536,666)	(161,406)	(698,072)	(1,749)
Total Assets	$ 1,129,983	$ 518,558	$ 1,648,541	$ 49,465

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, 2005
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Accounts payable and accrued liabilities	$ 13,165	$ 4,348	$ 17,513	$ 3,059
Retainage payable	665	-	665	-
Due to primary government	-	-	-	127
Due to other governments	7	-	7	-
Unearned revenue	10,750	-	10,750	1
Accrued interest	1,650	-	1,650	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,201	1,201	-
Retainage payable	-	1,116	1,116	-
Accrued interest	-	1,522	1,522	-
Revenue bonds payable, current	-	3,427	3,427	-
Meter deposits	-	3,996	3,996	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	5,693	-	5,693	-
Sales tax payable	149	-	149	74
General obligation debt	26,160	-	26,160	-
Accrued compensated absences	1,165	71	1,236	-
Capital lease obligation	545	-	545	-
Revenue bonds, net of discount	-	6,822	6,822	-
Due in more than one year:				
Arbitrage rebate	12	-	12	-
Estimated claims payable	5,826	-	5,826	-
Sales tax payable	932	-	932	460
Bonds payable	-	-	-	17,180
General obligation debt	552,066	-	552,066	-
Landfill closure accrued liabilities	4,330	-	4,330	-
Accrued compensated absences	20,960	1,481	22,441	-
Capital lease obligation	1,630	-	1,630	-
Revenue bonds, net of discount	-	83,957	83,957	-
Total Liabilities	645,705	107,941	753,646	20,901
NET ASSETS				
Invested in capital assets, net of related debt	408,969	380,515	789,484	2,046
Restricted for debt service	20,216	10,041	30,257	9,103
Restricted for impact fees	5,522	-	5,522	-
Unrestricted	49,571	20,061	69,632	17,415
Total Net Assets	$ 484,278	$ 410,617	$ 894,895	$ 28,564

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(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	$ 26,906	$ 15,449	$ -	$ -
Public safety	97,645	6,851	1,509	496
Public works	64,369	3,001	3,578	3,917
Public health	2,416	65	-	-
Parks and recreation	23,262	8,243	-	195
Public welfare	6,383	-	3,057	241
Convention and event services	5,435	2,496	-	-
Interest and fiscal charges	13,898	-	-	-
Total Governmental Activities	240,314	36,105	8,144	4,849
Business-Type Activities:				
Water and sewer	65,220	92,144	-	3,676
Landfill	4,310	4,484	-	-
Total Business-Type Activities	69,530	96,628	-	3,676
Total Primary Government	$ 309,844	$ 132,733	$ 8,144	$ 8,525
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 141	$ 2,593	$ -	$ -
Arlington Housing Authority	23,231	-	23,352	-
Arlington Convention and Visitors Bureau	2,961	2,744	344	-
Arlington Housing Finance Authority	1	155	-	-
Total Component Units	$ 26,334	$ 5,492	$ 23,696	$ -

General Revenues:
- Property taxes
- Sales taxes
- Criminal justice tax
- State liquor tax
- Bingo tax
- Downtown TIF tax
- Occupancy tax
- Utility franchise fees
- Interest
- Net decrease in fair value of investments
- Other

Special Item - Closure/post-closure trust
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning, as restated
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (11,457)	$ -	$ (11,457)	$ -
(88,789)	-	(88,789)	-
(53,873)	-	(53,873)	-
(2,351)	-	(2,351)	-
(14,824)	-	(14,824)	-
(3,085)	-	(3,085)	-
(2,939)	-	(2,939)	-
(13,898)	-	(13,898)	-
(191,216)	-	(191,216)	-
-	30,600	30,600	-
-	174	174	-
	30,774	30,774	-
$ (191,216)	$ 30,774	$ (160,442)	$ -
$ -	$ -	$ -	$ 2,452
-	-	-	121
-	-	-	127
-	-	-	154
$ -	$ -	$ -	$ 2,854
101,235	-	101,235	-
60,476	-	60,476	-
360	-	360	-
973	-	973	-
102	-	102	-
590	-	590	-
5,261	-	5,261	-
28,928	-	28,928	-
5,642	1,255	6,897	2,139
(1,244)	(77)	(1,321)	(279)
4,900	21	4,921	108
4,330	-	4,330	-
40,563	(40,563)	-	(800)
252,116	(39,364)	212,752	1,168
60,900	(8,590)	52,310	4,022
423,378	419,207	842,585	24,542
$ 484,278	$ 410,617	$ 894,895	$ 28,564

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 47,919	$ 6,062	$ 33,288	$ 83,709	$ 170,978
Closure/Post-closure trust fund	4,330	-	-	-	4,330
Investments	-	10,128	234,970	-	245,098
Receivables (net of allowance for uncollectibles)					
Taxes	3,296	379	-	1,101	4,776
Sales taxes	7,234	3,635	-	1,818	12,687
Franchise fees	6,809	-	-	-	6,809
Special assessments	-	-	-	363	363
Accrued interest	730	41	1,625	-	2,396
Other	1,535	-	-	1,596	3,131
Due from other funds	2,975	-	-	-	2,975
Due from component units	127	-	-	-	127
Due from other governments	-	-	-	3,427	3,427
Inventory of supplies, at cost	254	-	-	-	254
Prepaid expenditures	46	-	-	185	231
Total Assets	$ 75,255	$ 20,245	$ 269,883	$ 92,199	$ 457,582
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 5,844	$ 29	$ 954	$ 5,512	$ 12,339
Retainage payable	20	-	-	645	665
Due to other funds	-	-	-	2,975	2,975
Due to other governments	-	-	-	7	7
Deferred revenue-					
Taxes	3,113	-	-	-	3,113
Closure/Post-closure trust fund	4,330	-	-	-	4,330
Other	9,891	-	-	3,946	13,837
Total Liabilities	23,198	29	954	13,085	37,266
Fund Balances:					
Reserved for encumbrances	3,230	-	1,377	20,200	24,807
Reserved for debt service	-	20,216	-	-	20,216
Reserved for inventory	254	-	-	-	254
Reserved for prepaids	46	-	-	185	231
Reserved for capital projects	-	-	267,552	51,080	318,632
Reserved for street maintenance	-	-	-	1,709	1,709
Reserved for utility rate case	500	-	-	-	500
Reserved for court technology	-	-	-	162	162
Reserved for court security	-	-	-	224	224
Unreserved-					
General fund					
Designated for telecommunications	274	-	-	-	274
Designated for working capital	14,373	-	-	-	14,373
Designated for subsequent years' expenditures	5,174	-	-	-	5,174
Designated for arbitrage	12	-	-	-	12
Designated for compensated absences	1,125	-	-	-	1,125
Designated for other post employment benefits	1,718	-	-	-	1,718
Designated for landfill lease proceeds	19,887	-	-	-	19,887
Undesignated	5,464	-	-	-	5,464
Special revenue funds					
Designated for working capital	-	-	-	2,045	2,045
Designated for capital maintenance	-	-	-	161	161
Undesignated	-	-	-	3,348	3,348
Total Fund Balances	52,057	20,216	268,929	79,114	420,316
Total Liabilities and Fund Balances	$ 75,255	$ 20,245	$ 269,883	$ 92,199	$ 457,582

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet	$	420,316
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.		634,890
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		10,530
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 (including capital assets of $11,824).		24,321
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 $12,224 recorded in the internal service funds).		(605,779)
Net assets of governmental activities	$	484,278

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 104,208	$ 49,963	$ -	$ 15,174	$ 169,345
Licenses and permits	4,476	-	-	-	4,476
Utility franchise fees	28,928	-	-	-	28,928
Fines and forfeitures	6,259	-	-	-	6,259
Leases, rents and concessions	5,207	-	-	-	5,207
Service charges	5,781	-	-	14,394	20,175
Interest revenue	1,564	608	805	2,275	5,252
Net increase (decrease) in fair value of investments	(63)	(48)	(1,066)	(55)	(1,232)
Contributions	-	-	-	1,664	1,664
Intergovernmental revenues	-	-	-	9,216	9,216
Other	800	134	-	3,358	4,292
Total Revenues	157,160	50,657	(261)	46,026	253,582
EXPENDITURES					
Current-					
General government	30,718	-	-	376	31,094
Public safety	97,212	-	-	2,444	99,656
Public works	20,725	-	-	16,246	36,971
Public health	1,342	-	-	93	1,435
Public welfare	-	-	-	6,543	6,543
Parks and recreation	14,727	-	-	7,028	21,755
Convention and event services	-	-	-	5,435	5,435
Capital Outlay	-	-	31,069	26,202	57,271
Debt service-					
Principal retirement	-	28,030	-	-	28,030
Interest and fiscal charges	-	14,632	-	-	14,632
Total Expenditures	164,724	42,662	31,069	64,367	302,822
Excess (deficiency) of revenues over (under) expenditures	(7,564)	7,995	(31,330)	(18,341)	(49,240)
OTHER FINANCING SOURCES (USES)					
Issuance of general obligation bonds	-	-	-	5,375	5,375
Issuance of revenue bonds	-	-	297,990	-	297,990
Issuance of capital leases	1,626	-	-	-	1,626
Proceeds from refunding bond issue	-	68,000	-	-	68,000
Bond premium	-	4,958	7,619	-	12,577
Amount used to fund escrow account	-	(72,240)	-	-	(72,240)
Transfers in	37,343	8,510	-	5,448	51,301
Transfers out	(4,665)	-	(5,350)	(5,302)	(15,317)
Total Other Financing Sources and Uses	34,304	9,228	300,259	5,521	349,312
Net Change in Fund Balances	26,740	17,223	268,929	(12,820)	300,072
Fund Balances, October 1, as restated	25,317	2,993	-	91,934	120,244
Fund Balances, September 30	$ 52,057	$ 20,216	$ 268,929	$ 79,114	$ 420,316

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds	$ 300,072
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 by which depreciation expense exceeded capital outlays in the current period.	25,626
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,017
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.	(280,924)
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.	32
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.	6,077
Change in net assets of governmental activities	$ 60,900

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

CITY OF ARLINGTON, TEXAS
BUDGETARY COMPARISON STATEMENT
GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget-Positive (Negative)
REVENUES						
Taxes	$ 102,616	$ 102,616	$ 104,208	$ -	$ 104,208	$ 1,592
Licenses and permits	4,749	4,749	4,476	-	4,476	(273)
Utility franchise fees	29,469	29,469	28,928	-	28,928	(541)
Fines and forfeitures	10,615	10,615	6,259	-	6,259	(4,356)
Leases, rents and concessions	3,866	3,866	5,207	800	6,007	2,141
Service charges	9,324	9,324	5,781	3,613	9,394	70
Interest revenue	505	505	1,564	-	1,564	1,059
Other revenue	-	-	800	(800)	-	-
Net increase (decrease) in the fair value of investments	-	-	(63)	63	-	-
Total Revenues	161,144	161,144	157,160	3,676	160,836	(308)
EXPENDITURES						
Current-						
General government	31,808	31,808	30,718	(120)	30,598	1,210
Public safety	101,006	101,006	97,212	1,289	98,501	2,505
Public works	24,433	24,433	20,725	2,697	23,422	1,011
Public health	1,301	1,301	1,342	109	1,451	(150)
Parks and recreation	15,306	15,306	14,727	443	15,170	136
Total Expenditures	173,854	173,854	164,724	4,418	169,142	4,712
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(12,710)	(12,710)	(7,564)	(742)	(8,306)	4,404
OTHER FINANCING SOURCES (USES)						
Issuance of capital leases	-	-	1,626	(1,626)	-	-
Transfers in	17,438	17,438	37,343	(1,287)	36,056	18,618
Transfers out	(4,387)	(4,387)	(4,665)	1,036	(3,629)	758
Total Other Financing Sources (Uses)	13,051	13,051	34,304	(1,877)	32,427	19,376
Net Change In Fund Balances	341	341	26,740	(2,619)	24,121	23,780
Fund Balances, October 1	20,745	20,745	25,317		25,317	4,572
Fund Balances, September 30	$ 21,086	$ 21,086	$ 52,057	$ (2,619)	$ 49,438	$ 28,352

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Major Fund Water and Sewer	Non-Major Fund Sanitary Landfill	Total	Governmental Activities- Internal Service Funds
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 12,526	$ -	$ 12,526	$ 23,275
Investments	-	-	-	2,429
Receivables (net of allowances for uncollectibles):				
Trade accounts	6,457	-	6,457	149
Accrued interest	-	-	-	21
Unbilled trade accounts	7,157	-	7,157	-
Other	132	-	132	-
Inventory of supplies, at cost	432	-	432	81
Subtotal	26,704	-	26,704	25,955
Restricted Assets:				
Bond contingency-Investments	11,307	-	11,307	-
Capital construction-Investments	37,438	-	37,438	-
Total Current Assets	75,449	-	75,449	25,955
Non-Current Assets:				
Restricted Assets:				
Bond contingency-Investments	257	-	257	-
Accrued interest	48	-	48	-
Capital construction-Investments	2,074	-	2,074	-
Assessments receivable	4	-	4	-
Meter deposit investments	3,996	-	3,996	-
Capital Assets:				
Land	4,828	-	4,828	-
Buildings and improvements	2,833	-	2,833	467
Water and sewer system	503,723	-	503,723	-
Machinery and equipment	9,827	-	9,827	33,286
Construction-in-progress	76,520	-	76,520	-
Accumulated depreciation	(161,406)	-	(161,406)	(21,929)
Total Capital Assets Net of Accumulated Depreciation	436,325	-	436,325	11,824
Total Noncurrent Assets	442,704	-	442,704	11,824
Total Assets	$ 518,153	$ -	$ 518,153	$ 37,779

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, 2005
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Major Fund Water and Sewer	Non-Major Fund Sanitary Landfill	Total	Governmental Activities- Internal Service Funds
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 4,348	$ -	$ 4,348	$ 826
Accrued compensated absences- Current	71	-	71	33
Revenue bonds, net of discount, payable from unrestricted assets	6,822	-	6,822	-
Capital lease obligation	-	-	-	108
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued liabilities	1,201	-	1,201	-
Retainage	1,116	-	1,116	-
Accrued interest	1,522	-	1,522	-
Estimated claims payable	-	-	-	5,693
Revenue bonds payable	3,427	-	3,427	-
Meter deposits	3,996	-	3,996	-
Total Current Liabilities	22,503	-	22,503	6,660
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	5,826
Compensated absences	1,481	-	1,481	207
Revenue bonds, net of discount payable from unrestricted assets	83,957	-	83,957	-
Capital lease obligation	-	-	-	357
Total Noncurrent Liabilities	85,438	-	85,438	6,390
Total Liabilities	107,941	-	107,941	13,050
NET ASSETS				
Invested in capital assets, net of related debt	380,515	-	380,515	11,171
Restricted for debt service	10,041	-	10,041	-
Designated for stop loss reserve	-	-	-	1,400
Designated for FSA contribution for 2006	-	-	-	1,020
Designated for migration/claim turnaround	-	-	-	2,500
Designated for legal risk	-	-	-	1,000
Unrestricted	19,656	-	19,656	7,638
Total Net Assets	$ 410,212	$ -	410,212	$ 24,729

Reconciliation to government-wide statements of net assets:	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	405
Net assets of business-type activities	$ 410,617

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Major Fund Water and Sewer	Non-Major Fund Sanitary Landfill	Total	Governmental Activities- Internal Service Funds
Operating Revenues:				
Water sales	$ 50,034	$ -	$ 50,034	$ -
Sewer service	37,094	-	37,094	-
Landfill user charges	-	4,443	4,443	-
Service charges	-	-	-	38,851
Sundry	5,016	41	5,057	453
Total Operating Revenues	92,144	4,484	96,628	39,304
Operating Expenses:				
Purchase of water	10,761	-	10,761	-
Purchase of sewage treatment	15,906	-	15,906	-
Salaries and wages	12,313	997	13,310	1,587
Employees' retirement	1,535	103	1,638	221
Supplies	2,226	153	2,379	2,990
Maintenance and repairs	2,105	958	3,063	993
Utilities	2,505	84	2,589	607
Claims	-	-	-	20,859
Legal and professional	-	-	-	535
Franchise fees	4,328	-	4,328	-
Depreciation	9,843	131	9,974	2,840
Closure/post-closure expense	-	350	350	-
Miscellaneous services	3,460	1,606	5,066	3,386
Total Operating Expenses	64,982	4,382	69,364	34,018
Operating Income	27,162	102	27,264	5,286
Nonoperating Revenues (Expenses):				
Interest revenue	1,255	-	1,255	311
Net decrease in the fair value of investments	(77)	-	(77)	(12)
Gain on sale of assets	-	21	21	199
Interest expense and fiscal charges	(845)	-	(845)	(12)
Total Nonoperating Revenues (Expenses)	333	21	354	486
Income before transfers and contributions	27,495	123	27,618	5,772
Contributions in aid of construction	3,676	-	3,676	-
Transfers in	-	-	-	2,224
Transfers out	(5,917)	(34,646)	(40,563)	(1,240)
Change in Net Assets	25,254	(34,523)	(9,269)	6,756
Total Net Assets, October 1	384,958	34,523	419,481	17,973
Total Net Assets, September 30	$ 410,212	$ -	$ 410,212	$ 24,729

Net change in net assets - total proprietary funds	$ (9,269)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	679
Change in net assets of business-type activities	$ (8,590)

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds			
	Major Fund Water and Sewer	Non-Major Fund Sanitary Landfill	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 89,695	$ 4,985	$ 94,680	$ 39,288
Cash payments to suppliers	(39,808)	(2,933)	(42,741)	(28,536)
Cash payments to employees	(13,798)	(1,269)	(15,067)	(1,829)
Net Cash Provided By Operating Activities	36,089	783	36,872	8,923
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	2,224
Transfers out	(3,421)	(34,598)	(38,019)	(1,240)
Net Cash Provided By (Used For) Noncapital Financing Activities	(3,421)	(34,598)	(38,019)	984
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(28,414)	-	(28,414)	(4,162)
Principal payments on capital lease	-	-	-	(96)
Interest payments on capital lease	-	-	-	(12)
Proceeds from sales of capital assets	-	10,528	10,528	258
Proceeds from issuance of long-term debt	17,000	-	17,000	-
Repayment of long-term debt	(10,088)	-	(10,088)	-
Interest payment long-term debt	(4,006)	-	(4,006)	-
Net Cash Provided By (Used For) Capital And Related Financing Activities	(25,508)	10,528	(14,980)	(4,012)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	1,861	-	1,861	311
Net increase (decrease) in the fair value of investments	(77)	-	(77)	(12)
Purchase of investments	(84,137)	-	(84,137)	(7,127)
Maturities/sales of investments	75,942	-	75,942	9,083
Net Cash Provided By (Used In) Investing Activities	(6,411)	-	(6,411)	2,255
Net Increase (Decrease) In Cash And Cash Equivalents	749	(23,287)	(22,538)	8,150
Cash And Cash Equivalents, October 1	11,777	23,287	35,064	15,125
Cash And Cash Equivalents, September 30	$ 12,526	$ -	$ 12,526	$ 23,275
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	$ 24,666	$ 54	$ 24,720	$ 5,286
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	9,843	131	9,974	2,840
Interest earnings capitalized	(477)	-	(477)	-
Interest expense capitalized	3,233	-	3,233	-
Amortization of bond premium	(57)	-	(57)	-
Provision for bad debts	265	-	265	-
(Increase) decrease in-				
Receivables	(2,450)	501	(1,949)	(16)
Inventory of supplies	50	-	50	6
Increase (decrease) in-				
Accounts payable and accrued liabilities	208	(84)	124	358
Estimated claims payable	-	-	-	470
Retainage payable	573	-	573	-
Meter deposits	361	-	361	-
Accrued compensated absences	(126)	(169)	(295)	(21)
Closure/post-closure liability	-	350	350	-
Total adjustments	11,423	729	12,152	3,637
Net Cash Provided By Operating Activities	$ 36,089	$ 783	$ 36,872	$ 8,923
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	3,676	-	3,676	-

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 8,096
Investments		
Money market fund	59	-
U. S. Government bonds	163	-
Corporate bonds	324	-
Fixed income mutual bond funds	7,432	36
Common stock mutual bond funds	69,311	230
Participant borrowing	5,493	-
Self directed brokerage accounts	6,713	-
Total Investments	89,495	266
Total Assets	89,495	8,362
LIABILITIES		
Accounts payable and accrued liabilities	-	8,096
IRC 401 deferred compensation plans	-	266
Total Liabilities	-	8,362
NET ASSETS		
Held in trust for pension benefits	$ 89,495	

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, 2005
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,255
Employee contributions	4,691
Net appreciation in fair value of investments	7,561
Total Additions	14,507
DEDUCTIONS	
Benefits	10,670
Plan administration	29
Total Deductions	10,699
Increase in Net Assets	3,808
Net Assets, October 1	85,687
Net Assets, September 30	$ 89,495

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

CITY OF ARLINGTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Arlington, Texas (the "City") was incorporated 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, sanitary landfill, 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 General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

B. Reporting Entity

The City is governed by an elected mayor and nine-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.

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

Arlington Sports Facilities Development Authority, Inc.

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

Arlington Housing Authority

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

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc.'s (the "ACVB") 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 Housing Finance Corporation

The Arlington Housing Finance Corporation's (the "AHFC") 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 can be obtained from the City’s Finance Department.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation's (the "AIDC") 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 can be obtained from the City’s Finance Department.

The financial statements of the following component units have been "blended" with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City.

Arlington Property Finance Authority, Inc.

The Arlington Property Finance Authority's (the "APFA") 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, the APFA provides services entirely to the City and its employees.

Thrift Savings Plan

The Thrift Savings Plan's (the "Thrift") governing board and trustee are appointed by the City Council. The City Council also directs the operations of the Thrift and has a significant influence over its investment policies. Additionally, the Thrift provides services exclusively to City employees.

Disability Income Plan

The Disability Income Plan's (the "DIP") governing board is appointed by the City Council. Additionally, the City Council appoints the DIP trustee and significantly influences its activities. The DIP exclusively covers City employees.

Part-Time Deferred Income Trust

The Part-Time Deferred Income Trust's (the "PTDIT") governing board is appointed by the City Council. Additionally, the City Council appoints the PTDIT trustee and significantly influences its activities. The PTDIT exclusively covers City employees.

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. 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, sales and franchise taxes, 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 stadium venue fund. GAAP sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in the 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.).

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

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

D. Measurement Focus and Basis of Accounting

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

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. 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, are recorded only when the liability has matured and payment is due.

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

In fiscal year 2005 the City changed its method of revenue recognition for impact fees from deferral and has recognized revenue upon receipt for these imposed non-exchange transactions, restating beginning fund balance as follows (in thousands):

	Fund Level Total Non-Major Funds	Government-Wide Governmental Activities
Beginning fund balance/net assets, as previously stated	$ 87,827	$ 419,271
Adjustment	4,107	4,107
Beginning fund balance/net assets, as restated	$ 91,934	$ 423,378

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, and sanitary landfill funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

c. Stadium Venue Fund accounts for the planning, acquisition, establishment, development, and construction of the Dallas Cowboys Complex Development Project. Funds are provided primarily through bond sales, interest earnings, sales tax, hotel occupancy tax, and car rental tax.

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

2. Enterprise Funds:

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the Enterprise Funds of the City:

a. Water and Sewer Fund is a major fund that accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

b. Sanitary Landfill Fund is a non-major fund that accounts for the operations of the City's landfill. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.

3. Other Fund Types:

The City additionally reports for the following Fund types:

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

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

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

E. Cash, Cash Equivalents and Investments

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

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

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 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. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

G. Capital Assets

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

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

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

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

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2005, approximately $2,757,000 of interest costs, net of $477,000 of interest earned, were capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Total interest expense and interest earned in fiscal 2005 for the Water and Sewer Fund amounted to approximately $845,000 and $1,255,000, respectively.

I. Arbitrage Liability

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

J. Compensated Absences

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

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

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

L. Fund Equity

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $605,779,000 difference are as follows (amounts in thousands):

Bonds payable	$568,065
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(3,112)
Premium general obligation debt	13,723
Deferred loss refunding	(3,562)
Accrued interest payable	1,650
Arbitrage rebate	12
Sales tax payable	1,081
Landfill closure	4,330
Compensated absences	21,882
Capital leases	1,710
Net adjustment to reduce fund balance - total governmental funds To arrive at net assets - governmental activities	$605,779

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "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." The details of the $25,626,000 difference are as follows (amounts in thousands):

Capital outlay	$59,503
Depreciation expense	(33,877)
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	$25,626

Another element of that reconciliation states "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the 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." The details of this $280,924,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	($379,959)
Premium on issuance	(3,983)
Less: issuance cost	2,975
Capital lease	(1,626)
Amortization of deferred loss on bond refunding	(544)
Principal repayments:	
General obligation debt	100,270
Capital lease	653
Amortization of bond premium	1,290
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	($ 280,924)

Another element of that reconciliation states, "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." The details of this $32,000 difference are as follows (amounts in thousands):

Compensated absences	$ (219)
Arbitrage	26
Closure/post-closure	(10)
Accrued interest expense	216
Amortization of issuance cost	(130)
Sales tax	149
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 32

III. 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 budgeted expenditures. 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 statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other 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 departmental 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 2005, the City Council did not approve any budgetary expenditure amendments for the General Fund.

The Budgetary Comparison Statement 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 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. Deficit fund equity

Special Revenue Funds, funded by State and Federal Grants, submit their expenses to associated governmental agencies for reimbursement. For the fiscal year ending September 30, 2005, the Federal Transit fund deficit of $197,000, the Texas Department of Transportation fund deficit of $278,000, the Home Investment Partnership fund deficit of $116,000, the Supportive Housing fund deficit of $7,000 and the Texas Criminal Justice Division fund deficit of $4,000 will be funded by Federal and State Grants, reimbursements from which will replenish the fund balance in the following fiscal year.

IV. DETAILED NOTES ON ALL FUNDS

1. DEPOSITS AND INVESTMENTS

Deposits - State statutes require that all City deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2005. At year-end, the carrying amount of the City's demand deposits (excluding Component Units) was an overdraft of $(2,492,000) (bank balance, $1,057,425). The City's bank balance (excluding Component Units) was covered by collateral with a fair value of

$5,191,850. The bank balance was fully collateralized by securities held in the City's name by the Federal Home Loan Bank of Dallas through a tri-party (City, depository bank and Federal Home Loan Bank) collateral agreement.

Investments - State statutes and City Bond Ordinances authorize the City's investments. The City is authorized to invest in U. S. Government obligations and its agencies or instrumentalities, obligations of Texas and its agencies, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements, commercial paper rated A-1+, P-1 with an underlying long-term rating of AA or better, prime domestic bankers acceptances, government pools and money market funds consisting of any of these securities listed, and obligations of states, cities and other political subdivisions with a rating of AAA and a maximum maturity of 18 months.

The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. As of September 30, 2005, the City had the following investments listed by investment policy fund groups:

Fund	Book Value	Fair Value	Weighted average Maturity (in days)
General Operating/Internal Pool	$228,787,323	$228,335,812	153
Cowboy Stadium Complex Project	269,838,308	268,773,047	462
Debt Service and Working Capital Reserve	6,661,788	6,644,193	239
Cowboy Stadium Complex Debt Service Reserve	12,525,955	12,480,225	579
Self-Insurance	4,264,785	4,252,616	130
Total Investments	**$522,078,159**	**$520,485,893**	

As of September 30, 2005, the Component Units of the City had the following investments listed by investment policy fund groups:

Fund	Book Value	Fair Value	Weighted average Maturity (in days)
Capital Project Funds	$946,100	$946,100	1
Debt Service Sinking	9,103,349	8,949,738	1,111
Total Investments	**$10,049,449**	**$9,895,838**	

Investments in the Retirement Security Plan are held by a bank trust department.

As of September 30, 2005, the fiduciary funds of the City had the following investments listed by investment policy fund groups:

Fund	Book Value	Fair Value	Weighted average Maturity (in days)
Pension Trust Funds	$ 89,495	$ 89,495	n/a
Agency Funds	8,362	8,362	n/a
Total Investments	**$ 97,857**	**$ 97,857**	

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

Fund	Maximum Maturity	Maximum WAM
General Operating	2 Years	1 Year
Capital Project	2 Years	18 Months
Cowboy Stadium Complex Project	4 Years	3 Years
Debt Service and Working Capital Reserve	5 Years	4 Years
Cowboy Stadium Complex Debt Service Reserve	7 Years	7 Years
Debt Service Sinking	7 Years	7 Years
Self-Insurance	7 Years	5 Years

Credit Risk. The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's investors Service and AAA by Standard and Poor's. The Arlington Housing Authority's investments in the Federal Home Loan Bank bond was rated AAA by Moody's. The Arlington Sports Facility Development's investments were in U.S. Treasury funds or U.S. Treasury money market mutual funds.

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer, but the City's Investment Committee is assigned the strategy of portfolio diversification. The Investment Committee has set the target of 50% or more of the City's portfolio invested in U.S. Treasury securities, Treasury backed repurchase agreements or Treasury money market mutual funds. As of September 30, 2005, the City's portfolio was 50.43% invested in U.S. Treasury Securities. 4.60% invested in Treasury money market mutual funds, 19.96% in Fannie Mae securities, 12.45% in Federal Home Loan Bank securities, 9.55% in Freddie Mac securities, 2.53% invested in a statewide investment pool, and 0.48% invested in Federal Farm Credit Bank securities.

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows: (amounts in thousands):

	Primary Government	Component Units	Reporting Entity	Fiduciary Funds
Cash on Hand	$ 73	$ -	$ 73	$ -
Carrying Amount of Deposits	(2,492)	4,618	(2,126)	8,096
Carrying Amount of Investments	511,797	9,896	525,945	89,761
	$509,378	$14,514	$523,892	$97,857
Cash and Cash Equivalents	$171,139	$ 3,930	$175,069	$ 8,096
Cash-Restricted	35,640	90	35,730	-
Investments	2,429	10,494	12,923	89,761
Investments-Restricted	300,170	-	300,170	-
	$509,378	$14,514	$523,892,	$97,857

2. PROPERTY TAXES

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

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2004, upon which the original FY05 levy was based, was $15,599,320,000.

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

For the fiscal year ended September 30, 2005, the City had a tax rate of $0.6480 ($0.4023 for general government and $0.2457 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 $288,899,406 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $15,599,320,000.

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

3. RECEIVABLES

Receivables at September 30, 2005 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

(Amounts expressed in thousands)

	General	Debt Service	Stadium Venue	Water & Sewer	Nonmajor & Other Funds	Total
Receivables:						
Taxes	$ 8,801	$ 379	$ -	$ -	$1,101	$10,281
Trade Accounts	6,809	-	-	8,524	-	15,333
Unbilled Trade Accounts	-	-	-	7,157	-	7,157
Special Assessments	-	-	-	-	363	363
Sales Taxes	7,234	3,635	-	-	1,818	12,687
Accrued Interest	730	41	1,625	-	-	2,396
Other	1,535	-	-	132	1,622	3,289
Gross Receivables	25,109	4,055	1,625	15,813	4,904	51,506
Less: Allowance for Uncollectibles	(5,505)	-	-	(2,067)	(26)	(7,598)
Net total receivables	$19,604	$4,055	$1,625	$13,746	$4,878	$43,908

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	(Amounts expressed in thousands)			
	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 71,831	$ 8,769	$ -	$ 80,600
Construction in progress	102,931	57,628	(11,037)	149,522
Total capital assets, not being depreciated	174,762	66,397	(11,037)	230,122
Capital assets, being depreciated:				
Buildings	102,547	18,954	-	121,501
Improvements other than buildings	55,584	-	-	55,584
Equipment	42,543	5,672	(1,690)	46,525
Infrastructure	724,849	4,799	-	729,648
Total capital assets, being depreciated	925,523	29,425	(1,690)	953,258
Less accumulated depreciation for:				
Buildings	27,359	17,044	-	44,403
Improvements other than buildings	18,936	-	-	18,936
Equipment	27,116	4,874	(1,657)	30,333
Infrastructure	415,223	27,771	-	442,994
Total accumulated depreciation	488,634	49,689	(1,657)	536,666
Total capital assets, being depreciated, net	436,889	(20,264)	(33)	416,592
Governmental activities capital assets, net	$611,651	$46,133	($11,070)	$646,714

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 10,950	$ 551	$ (6,673)	$ 4,828
Construction in progress	82,310	27,358	(33,148)	76,520
Total capital assets, not being depreciated	93,260	27,909	(39,821)	81,348
Capital assets, being depreciated:				
Buildings and improvements	17,216	-	(14,383)	2,833
Water and sewer system	465,926	37,797	-	503,723
Machinery and equipment	12,969	88	(3,230)	9,827
Total capital assets, being depreciated	496,111	37,885	(17,613)	516,383
Less accumulated depreciation for:				
Buildings and improvements	13,775	53	(12,917)	911
Water and sewer system	141,489	9,574	-	151,063
Machinery and equipment	11,710	347	(2,625)	9,432
Total accumulated depreciation	166,974	9,974	15,542)	161,406
Total capital assets, being depreciated, net	329,137	27,911	(2,071)	354,977
Business-type activities capital assets, net	$422,397	$55,820	($41,892)	$436,325

The landfill fund was closed and capital assets in the amount of $21,056,000 and accumulated depreciation in the amount of $12,972,000 were transferred to the governmental activities. See footnote 9.

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

Governmental activities:	
General Government	$ 2,676
Public Safety	625
Parks and recreation	2,529
Public works	28,033
Public health	14
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,840
Total depreciation expense – governmental activities	$36,717
Business-type activities:	
Water and sewer	$ 9,843
Sanitary landfill	131
Total depreciation expense – business-type activities	$ 9,974

Discretely presented component units:

(Amounts expressed in thousands)

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Sports Facilities Development Authority, Inc.:				
Capital assets, being depreciated:				
Buildings and improvements	$2,739	$ -	$ -	$2,739
Total capital assets, being depreciated	2,739	-	-	2,739
Less accumulated depreciation for:				
Buildings and improvements	1,150	110	-	1,260
Total accumulated depreciation	1,150	110	-	1,260
Total capital assets, being depreciated, net	1,589	(110)	-	1,479
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$1,589	($110)	$ -	$1,479

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Housing Authority, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$ 761	$ -	$ (83)	$678
Total capital assets, not being depreciated	761	-	(83)	678
Less accumulated depreciation for:				
Machinery and equipment	298	27	(83)	242
Total accumulated depreciation	298	27	(83)	242
Total capital assets, being depreciated, net	463	(27)	-	436
Arlington Housing Authority, Inc. activities capital assets, net	$ 463	($27)	$ -	$436

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Convention and Visitors Bureau, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$367	$ 11	$-	$378
Total capital assets, not being depreciated	367	11	-	378
Less accumulated depreciation for:				
Machinery and equipment	212	35	-	247
Total accumulated depreciation	212	35	-	247
Total capital assets, being depreciated, net	155	(24)	-	131
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$155	($24)	$-	$131

5. PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 801 currently administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/05):

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

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2005, the City’s annual pension cost of $14,671,901 was equal to the City’s required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an 9.7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/03	$14,117,102	100.00%	-
9/30/04	$13,955,035	100.00%	-
9/30/05	$14,671,901	100.00%	-

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 requirements 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, 2005, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $87,978,000.

The City's total payroll during fiscal 2005 was $117,596,000. The current year contribution was calculated based on a covered payroll of $76,607,000, resulting in a required and actual employer contribution of $1,879,000 and actual employee contributions of $4,570,000. The employer contribution represents 2.5 percent of the covered payroll. The employee contribution represents approximately 6.0 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2005. There were no related-party transactions.

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 plan administered by the City of Arlington's Human Resources 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.

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is currently 3.3 percent. The City's required contribution rate was determined as part of the July 1, 2004, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. For 2005, 2004, 2003, 2002, 2001, and 2000 the City contributed 100 percent of the annual pension cost totaling approximately $87,000, $75,000, $0, $0, $0, and $75,000 respectively.

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

IRC 457 Deferred Compensation Plans

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

Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (the "DIP"), a single-employer 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. As of July 1, 2004, the date of the latest actuarial valuation, the DIP had benefit liabilities to disabled participants of $2,960,000. The market value of DIP assets at July 1, 2004, was $286,000. The resulting unfunded DIP liability of $2,674,000 will be funded by employer contributions over 30 years. The DIP does not issue separate stand-alone financial statements.

City contributions for the above plans for the year ended September 30, 2005, are as follows (amounts in thousands):

TMRS	$14,672
THRIFT	1,879
PTDIT	88
DIP	288
	$16,927

Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust, Thrift Savings and Disability Income Plans do not issue separate GAAP financial reports. Their financial statements are presented below:"

	Statement of Net Assets			
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ASSETS				
Investments	$1,229	$87,978	$288	$89,495
Total Assets	$1,229	$87,978	$288	$89,495
NET ASSETS, Held in Trust For Pension Benefits	$1,229	$87,978	$288	$89,495

	Statement of Changes in Net Assets			
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ADDITIONS				
Employer contributions	$ 88	$ 1,879	$288	$ 2,255
Employee contributions	121	4,570	-	4,691
Net appreciation in fair value of investments	62	7,484	15	7,561
Total Additions	$ 271	$13,933	$303	$14,507
DEDUCTIONS				
Benefits	114	10,255	301	10,670
Plan administration	23	4	2	29
Total Deductions	137	10,259	303	10,699
Increase in Net Assets	134	3,674	0	3,808
NET ASSETS, October 1	1,095	84,304	288	85,687
NET ASSETS, September 30	$1,229	$87,978	$288	$89,495

Other Post Employment Benefits

The City provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City of Arlington. Currently, 555 retirees meet those eligibility requirements. Retirees may select either one or a combination of the following benefit plans offered by the City – medical, dental and/or vision coverage. Participants under age 65 may select from two EPO plans. Effective January 1, 2005, participants age 65 and over had the additional option to enroll in Medicare supplemental AARP Plans F or J. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants. During the year, expenditures of $2,919,198 were recognized for postretirement health care.

6. LONG-TERM DEBT

General Long-Term Debt

In March, 2005, the City issued $68,000,000 of Permanent Improvement Refunding Bonds, Series 2005 for the purpose of refunding a portion of the City's outstanding debt, making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature on August 15th of each year over a period from 2005 to 2024. Interest is payable February 15 and August 15 of each year commencing August 15, 2005. Total interest requirements for these bonds as of 9/30/05, at rates ranging from 2.50 percent to 5.0 percent aggregate of $33,193,275. The proceeds from the refunding portion of the issuance of $72,240,000 were used to purchase U.S. Government securities which were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the refunded $72,240,000 of permanent improvement bonds and certificates of obligation. As a result, the refunded bonds are considered to be legally defeased and the liability is not reflected in the statement of net assets. This refunding was undertaken to reduce total debt service payments over the next seventeen years by $4,160,552 and resulted in an economic gain of $3,088,867. The difference between the reacquisition price and carrying amount of the debt resulted in a loss of approximately $3,265,000 which has been recorded in the government-wide statements as a deferred charge.

The City also issued $5,375,000 of Combination Tax and Revenue Certificates of Obligation, Series 2005, during FY 2005 at an effective interest rate of 3.51 percent, with all issuances scheduled to mature serially from 2006 to 2015. The certificate proceeds will be used to make various capital improvements.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. The withholding is allocated between the General Fund for $12,427 per month and the ASFDA for $6,140 per month. As of September 30, 2005, this liability is reported at $1,081,206 in the governmental activities and $534,228 in the component units of the statement of net assets. Beginning in 2003, as sales tax allocations were reduced monthly, the City recorded an expense at the fund level and recorded sales tax revenue for the amount of the monthly sales tax allocation withheld by the Comptroller's office. The City also recorded a fund liability to the extent that sales tax revenues are recognized and accrued at year-end.

On July 15, 2005 the City issued $297,990,000 Dallas Cowboy Complex Special Obligations pledging the ½ cent sales tax, 2% hotel occupancy tax and five percent car rental tax along with base rental revenue and five percent of the naming rights revenue. The proceeds of this bond sale, along with interest earnings and excess revenues, will provide the City's funding for the project. Series A and C of the Dallas Cowboy Complex Special Obligations are fixed rate debt totaling $133,725,000. The Series B of the Dallas Cowboy Complex Special Obligations are variable debt totaling $164,265,000. The variable rate Series B are hedged with two interest rate swaps as described in footnote 10.

General long-term and special obligation debt balances and transactions and other long term obligations for the year ended September 30, 2005, are as follows (amounts in thousands):

	Balance, October 1, 2004	Additions	Retirements and Other	Balance, September 30, 2005	Due Within One Year
General obligation debt (1)	$258,960	$68,000	($94,485)	$232,475	$23,135
Special tax revenue debt (2)	-	297,990	-	297,990	-
Certificates of obligation	34,745	5,375	(2,520)	37,600	3,025
Premium on general bonds	2,436	4,958	(1,290)	6,104	-
Premium on special bonds	-	7,619	-	7,619	-
Deferred loss on refunding	(841)	(3,265)	544	(3,562)	-
Accrued compensated absences	21,758	1,836	(1,469)	22,125	1,164
Capital lease obligation	764	1,626	(215)	2,175	233
Arbitrage rebate	38	-	(26)	12	-
Claims payable	11,049	5,867	(5,397)	11,519	5,693
Landfill Closure Liability	3,970	360	-	4,330	-
Sales tax payable	1,230	-	(149)	1,081	149
Total	$334,109	$390,366	($105,007)	$619,468	$33,399

(1) The general obligation debt of $270,075 consists of serial and term bonds and certificates of obligation payable from general property taxes. The bonds mature annually in varying amounts through fiscal year 2024, and interest is payable semiannually at rates ranging from 2.50 percent to 7.375 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2005 are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2006	$ 26,160	$ 12,916	$ 39,076
2007	23,920	11,709	35,629
2008	22,905	10,598	33,503
2009	21,015	9,474	30,489
2010	19,665	8,469	28,134
2011-2015	89,460	28,665	118,125
2016-2020	54,420	10,089	64,509
2021-2024	12,530	1,188	13,718
	$270,075	$93,108	$363,183

General obligation debt authorized and unissued as of September 30, 2005, amounted to $116,245,000.

(2) The special obligation debt of $297,990 consists of tax exempt special tax bonds and taxable special tax and revenue bonds. The Series A and C bonds mature annually in varying amounts through fiscal year 2035, and interest is payable semiannually at rates ranging from 3.0 percent to 5.0 percent. The Series B bonds interest in payable monthly.

The principal and interest requirements of the above special obligation debt at September 30, 2005, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2006	$ -	$ 12,110	$ 12,110
2007	-	12,389	12,389
2008	-	12,389	12,389
2009	4,950	12,389	17,339
2010	5,230	12,220	17,450
2011-2015	38,890	56,039	94,929
2016-2020	20,525	41,780	62,305
2021-2025	-	38,865	38,865
2026-2030	-	38,865	38,865
2031-2035	228,395	30,474	258,869
	$297,990	$267,520	$565,510

Debt of the Enterprise Funds

The City issued $17,000,000 of Water and Wastewater System Revenue Bonds, Series 2005 during 2005 at an effective interest rate of 4.14 percent and will mature on June 1st of each year over a period from 2006 to 2024. Interest is payable June 1 and December 1 of each year commencing on December 1, 2005. Total interest requirements for these bonds, at rates ranging from 2.5 percent to 5.00 percent, aggregate $7,309,385. The bond proceeds were used to improve and extend the water and wastewater system.

The revenue bonds of the Enterprise Funds are payable from operations of the Water and Sewer Fund. The bonds mature annually in varying amounts through fiscal year 2024, and interest is payable semiannually at rates ranging from 2.375 percent to 6.0 percent. Debt balances and transactions for the year ended September 30, 2005, are as follows (amounts in thousands):

	Balance, October 1, 2004	Additions	Retirements and Other	Balance, September 30, 2005	Due Within One Year
Waterworks and Sewer System- Revenue bonds	$87,935	$17,000	($10,145)	$94,790	$10,280
Deferred loss on refunding	(626)	-	42	(584)	-
Compensated Absences	1,847	-	(295)	1,552	71
Total	$89,156	$17,000	($10,398)	$95,758	$10,351

The revenue bonds are collateralized by the revenue of the water and sewer system and assets of various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is first to be used to pay operating and maintenance expenses of the system and secondly to establish and maintain the special funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts calculated in accordance with provisions of the existing bond ordinances and certain financial ratios are met.

The principal and interest requirements at September 30, 2005, for the enterprise fund debt for the next five years and thereafter, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Waterworks and Sewer System Revenue Bonds
2006	$10,280	$ 4,228	$ 14,508
2007	9,510	3,629	13,139
2008	7,030	3,240	10,270
2009	6,990	2,965	9,955
2010	6,945	2,683	9,628
2011-2015	27,870	9,483	37,353
2016-2020	19,425	4,024	23,449
2021-2024	6,740	633	7,373
	$94,790	$30,885	$125,675

Long-Term Debt of the Discretely Presented Component Units

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the ASFDA authorized the issuance of $20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the ASFDA, secured by a subordinated junior lien on the one-dollar ticket surcharge of up to $2,000,000 annually. The Bonds are due on December 31, 2008, and are callable at any time at the option of the ASFDA. As of September 30, 2005, $17,179,900 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Texas Rangers sports facility.

7. 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, 2005, previously defeased debt still outstanding amounted to $43,545,000.

8. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2005, is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$2,975	$ -
Nonmajor Funds	-	2,975
	$2,975	$2,975

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2006.

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

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 4,665	$ 37,343
Debt Service Fund	-	8,510
Stadium Venue Fund	5,350	-
Total Major Governmental Funds	10,015	45,853
Major Proprietary Funds:		
Water and Sewer Fund	5,917	-
Sanitary Landfill Fund	34,646	-
Total Major Proprietary Funds	40,563	-
Nonmajor Funds	5,302	5,448
Internal Service Funds	1,240	2,224
Total All Funds	$57,120	$53,525

The combined Water and Sewer, Convention and Event Services, Arlington Property Finance Authority, and Sanitary Landfill Funds transferred $4,513,000 to the General Fund to cover their budgeted indirect costs.

The Sanitary Landfill Fund made a one time transfer of $9,181,000 to General Fund.

The General Fund transferred $4,387,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses.

The Debt Service Fund received budgeted transfers of $2,980,000 from the Convention and Event Services, Sanitary Landfill and Park Performance Funds to cover debt service repayments.

The difference between total transfers out and transfers in relates to net capital assets of $3,595,000 transferred out of the Sanitary Landfill Fund upon its closure. See footnote 9.

9. 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 an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The $4,330,000 reported as a landfill closure and post-closure accrued liability at September 30, 2005, represents the cumulative amount reported to date based on the use of approximately 49 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $3,473,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2005. 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. Upon lease of the landfill, the solid waste fund was closed and transferred into the General Fund. The transfers into the General Fund consisted of $14 million cash and $6 million of dirt inventory used in the operation of the lease. The fund's equipment was sold prior to the closure of the fund. The fund's net assets of approximately $6 million, consisting of buildings and land, were transferred to general fixed assets and the long-term closure/post-closure liability of $4 million was transferred to general long-term debt. The City received an initial payment of $15 million, $6 million of which was for the purchase of the City's dirt inventory. The remaining $9 million was recorded as deferred revenue and will be amortized over the life of the lease. Republic is responsible for the appropriate closure and post-closure maintenance of the entire landfill and 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, 2005, cash and cash equivalents are held for these purposes.

10. 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, 2005. 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	Spend-to-Date	Remaining Commitment
Street Construction	$ 42,194	$ 8,017
Park Construction	22,585	2,563
Police Construction	13,462	564
Traffic Construction	8,399	986
Water and Sewer Construction	76,520	5,011
	$163,160	$17,141

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

Litigation

The City is currently involved in an employment lawsuit in which the plaintiff alleges that his termination violated the Family Medical Leave Act. The City is vigorously contesting this case, which was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case has been appealed. Oral argument was before the 5th circuit court of appeals on December 7, 2005. A decision is expected in early 2006. The range of exposure to the City in the event the jury verdict is affirmed on appeal is $1.1 to $1.5 million. The probability of an unfavorable outcome cannot be determined at this time and an accrual has been recorded.

The City is currently involved in an American with Disabilities Act discrimination lawsuit, in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City of Arlington. The City contends that the City is in compliance with the ADA. The City is vigorously contesting this case which is still in the early pleading stages of litigation.

The range of exposure to the City in the event of a jury verdict is inestimable. The probability of an unfavorable outcome cannot be determined at this time.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 11) of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

Derivative Instruments

Objective of the swap. The City of Arlington, Texas (the "City") issued its variable-rate Dallas Cowboys Complex Tax-Exempt Special Tax Bonds, Series 2005B (Multi-Modal) (the "Bonds") on September 1, 2005 in the amount of $164,265,000, for the governmental purpose of the planning, acquisition, establishment, development and construction of the Dallas Cowboys Complex. In anticipation of the Bonds' issuance, on July 25, 2005 the City entered into two separate pay-fixed, receive-variable interest rate swaps (collectively, the "Swaps"). The variable rate the City will receive under the Swaps is The Bond Market Association TM Municipal Swap Index, which is expected to closely approximate the variable interest rate of the Bonds. The City entered into the Swaps to synthetically fix the rate payable on the Bonds for an established period, and thus manage its interest rate risk while obtaining a lower fixed interest rate than would have been available for similar fixed-rate debt obligations. The Swaps will terminate on September 1, 2016, at which point the City will face an unhedged variable interest rate exposure on the Bonds, unless an additional swap or swaps are procured on or before that time, or if, as is the City's intention, the City begins retiring the Bonds at that time. The Swaps were entered into in equal amounts of $82,132,500 with JPMorgan Chase Bank, N.A. and $82,132,500 with UBS AG, Stamford Branch (collectively, the "Counterparties").

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the Swaps, as of September 30, 2005, are included below. The City's Swaps contain one scheduled reduction to the outstanding notional amounts on September 1, 2013 from $82,132,500 to $57,527,500. This notional reduction is expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating (Moody's/S&P/Fitch)
Series 2005B	82,132,500	9/1/2005	3.719%	BMA	(228,199.42)	9/1/2016	(Aa2/AA-/AA-)
Series 2005B	82,132,500	9/1/2005	3.719%	BMA	(228,199.42)	9/1/2016	(Aa2/AA+/AA+)
				Total:	(456,398.84)		

Fair value. The Swaps had a negative fair value as of September 30, 2005 of ($456,398.84). This fair value takes into consideration the prevailing interest rate environment, and the specific terms and conditions of the transaction. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swaps, assuming that the current forward tax-exempt rates implied by the BMA yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the taxable spot rates implied by the current London Interbank Offered Rate ("LIBOR") yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the Swaps.

Credit risk. As of September 30, 2005, the City was not exposed to credit risk on its Swaps because the Swaps had a negative fair value. However, should interest rates change and the fair values of the Swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' fair value. The credit ratings of JPMorgan Chase Bank, N.A. are Aa2/AA-/AA-, and of UBS AG, Stamford Branch are Aa2/AA+/AA+ by Moody's/S&P/Fitch respectively.

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

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate Bonds to bondholders differs from the variable swap rate received from the Counterparty. The City bears basis risk on its Swaps. The Swaps have basis risk since the City receives BMA to offset the actual variable Bond rate the City pays on its Bonds. The City is exposed to basis risk should the floating rate that it receives on a Swaps be less than the actual variable rate the City pays on the Bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected overall synthetic fixed rate from the Swaps may not be realized.

Termination risk. The City or the Counterparty may terminate the Swaps if the other party fails to perform under the terms of the respective contracts. If the Swaps are terminated, the associated variable-rate Bonds would no longer be hedged to a fixed rate. The City has a swap insurance policy in place with MBIA Insurance Corporation (the "Insurer"), which mitigates its exposure to termination risk. The City will not be required to post collateral as long as the Insurer's credit ratings do not fall below A2 by Moody's or A by S&P. As of September 30, 2005, the Insurer's credit ratings were Aaa by Moody's and AAA by S&P. If at the time of termination the Swaps have a negative fair value, the City would be liable to the Counterparty for a payment equal to the Swaps' fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City.

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

Swap payments and associated debt. As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Dallas Cowboys Coomplex Special Obligations, Series 2005B

Fiscal Year Ended September 30	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ -	$ 4,566,567	$ 1,542,448	$ 6,109,015
2007	-	4,566,567	1,542,448	6,109,015
2008	-	4,566,567	1,542,448	6,109,015
2009	-	4,566,567	1,542,448	6,109,015
2010	-	4,566,567	1,542,448	6,109,015
2011-2015	-	22,832,835	6,749,570	29,582,405
2016-2020	-	22,832,835	990,336	23,823,171
2021-2025	-	22,832,835	-	22,832,835
2026-2030	-	22,832,835	-	22,832,835
2031-2035	164,265,000	22,262,014	-	186,527,014
Total	$ 164,265,000	$ 136,426,189	$ 15,452,146	$ 316,143,335

11. 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.

In 1986, APFA issued $9,000,000 of notes payable and the City transferred $1,000,000 from the General Fund in order to initially fund the Program. In August 2001, the City Council adopted an ordinance to extend the program for another four years, through September 30, 2005. In September 2005, the City Council adopted an ordinance to extend the program through September 30, 2006. On January 12, 1999, the City issued $7,000,000 of Certificates of Obligation, Series 1999 which will adequately capitalize the Fund through fiscal year 2006, based on a recent actuarial study of the program. The $7,000,000 was repaid from ad valorem taxes. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed $1,000,000 per occurrence and $3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 2.2 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $2,559,000 at September 30, 2005.

Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of $300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 2.2 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $6,034,000 at September 30, 2005.

Group Health

Group medical benefits are paid through the Group Health Fund which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage.

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately $2,926,000 at September 30, 2005.

Changes in the balances of claims liabilities during fiscal 2005 and 2004 were as follows (amounts in thousands):

Fiscal 2005	October 1	Claims and Changes in Estimates	Claim Payments	September 30
APFA	$ 2,753	$ 40	$ (234)	$ 2,559
Workers' Compensation	5,806	2,912	(2,684)	6,034
Group Health	2,490	18,571	(18,135)	2,926
	$11,049	$21,523	($21,053)	$11,519
Fiscal 2004				
APFA	$ 1,652	$ 1,501	$ (400)	$ 2,753
Workers' Compensation	4,837	5,008	(4,039)	5,806
Group Health	6,294	12,064	(15,868)	2,490
	$12,783	$18,573	($20,307)	$11,049

12. LEASES

A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals $2,175 and is reported as capital lease obligations current liabilities ($545) and capital lease obligations non-current liabilities ($1,630) in the General Services Fund and the Court Technology Fund.

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

Year ending September 30, 2005	Rental Payments
2006	$ 604
2007	533
2008	533
2009	501
2010	145
Total minimum future lease payments	2,316
Less: Amount representing interest	(141)
Present value of net minimum lease payments	$2,175

The City's investment in equipment under capital lease arrangements as of September 30, 2005 is $3,385,000.

The City is also committed under various leases for data processing, office equipment and machinery. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2005, amounted to $411.

Future minimum lease payments for these leases are as follows (amounts in thousands):

Year ending September 30	Rental Payments	Governmental Activities	Business-type Activities
2006	$301	$301	$0
2007	64	64	0
2008	2	2	0
	$367	$367	$0

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, commercial and office complex and business park. 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, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of $750,000. Total rental payments received in 2005 were approximately $207,000.

13. DISPUTE SETTLEMENT AGREEMENT

On April 27, 1999, the ASFDA and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the ASFDA and the City alleged should be paid by the Rangers (the "Claim"). The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

Year	Amount
2005	$ 800,000
2006	800,000
2007	800,000
2008	800,000
2009	800,000
2010 to 2014	4,900,000
2015 to 2019	5,000,000
2020 to 2024	5,000,000
	18,900,000
Less Discount	7,455,000
	$11,445,000

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

14. CAPITAL LEASE

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

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease in the component unit, ASFDA. Accordingly, a lease receivable has been established representing the future expected lease proceeds and the capital assets have been removed from the accounts of the ASFDA. As of September 30, 2005, the lease receivable balance was $19,389,324.

Minimum future rentals are as follows:

September 30	
2006	$ 2,000,000
2007	2,000,000
2008	2,000,000
2009	2,000,000
2010	2,000,000
2011-2015	10,000,000
2016-2020	10,000,000
2021-2023	7,055,556
	37,055,556
Less Discount	17,666,332
Minimum future lease rentals	$19,389,224

15. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2005, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc. 2005	Housing Authority 2005	Nonmajor Discretely Presented Component Units 2005	Total Discretely Presented Component Units 2005
Current and other assets	$41,209	$5,443	$767	$47,419
Capital assets	1,479	436	131	2,046
Total assets	42,688	5,879	898	49,465
Long-term liabilities outstanding	17,640	-	-	17,640
Other liabilities	487	2,635	139	3,261
Total liabilities	18,127	2,635	139	20,901
Net assets:				
Invested in capital assets, net of related debt	1,479	436	131	2,046
Restricted	9,103	-	-	9,103
Unrestricted	13,979	2,808	628	17,415
Total net assets	$24,561	$3,244	$759	$28,564

Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc. 2005	Housing Authority 2005	Nonmajor Discretely Presented Component Units 2005	Total Discretely Presented Component Units 2005
Expenses	$ 941	$23,231	$2,962	$27,134
Program Revenues:				
Charges for services	2,593	-	2,899	5,492
Operating grants and contributions	-	23,352	344	23,696
Net Program (Expense) Revenue	1,652	121	281	2,054
Interest Revenues	2,066	57	16	2,139
Other NonTax General Revenues	(244)	74	(1)	(171)
Change in Net Assets	3,474	252	296	4,022
Net Assets, October 1, as restated	21,087	2,992	463	24,542
Net Assets, September 30	$24,561	$ 3,244	$ 759	$28,564

In fiscal year 2005, the City completed its GASB Statement No. 34 conversion of the discretely-presented component unit Arlington Sports Facilities Development Corporation, Inc. ("ASFDA") from a governmental fund to a proprietary fund by recognizing all previously deferred revenue, restating beginning net assets for ASFDA (in thousands).

ASFDA beginning net assets as previously stated	$ 3,255
Adjustment to remove deferred revenue	17,832
ASFDA beginning net assets, as restated	$ 21,087

Condensed Statement of Cash Flows

	Arlington Sports Facilities Development Authority, Inc. 2005	Housing Authority 2005	Nonmajor Discretely Presented Component Units 2005	Total Discretely Presented Component Units 2005
Net cash provided (used) by:				
Operating activities	$ 2,990	$ 447	$ 221	$ 3,658
Noncapital financing activities	(800)	-	-	(800)
Capital and related financing activities	-	-	(18)	(18)
Investing activities	(2,542)	(354)	8	(2,888)
Net increase (decrease)	(352)	93	211	(48)
Beginning cash and cash equivalents	1,845	1,700	434	3,979
Ending cash and cash equivalents	$ 1,493	$ 1,793	$ 645	$ 3,931

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/02	$316,095	$397,483	$ 81,388	79.5%	$110,722	73.5%
12/31/03	336,817	433,336	96,519	77.7%	109,451	88.2%
12/31/04	342,453	444,422	101,969	77.1%	115,074	88.6%

For 2005, the City's annual pension cost of $14,671,901 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

The actuarial assumptions used in the July 1, 2004, actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

The following table discloses certain three-year historical trend information:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Percent	Excess Funded AAL (EAAL)	Annual Covered Payroll	EAAL as a Percentage of Covered Payroll
7/1/02	$ 891,460	$ 834,006	106.9%	$ 57,454	$2,415,348	2.4%
7/1/03	928,709	873,745	106.3%	54,863	2,415,348	2.3%
7/1/04	1,038,934	913,685	113.7%	125,249	2,415,348	5.2%

* Valuation results for 7/1/2003 were estimated based on 7/1/2002 and 7/1/2004 valuations.
** An actuarial valuation was not performed as of 7/1/2005

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

The actuarial assumptions used in the July 3, 2004, actuarial valuation included were (a) 7.50 percent investment return, (b) no inflation rate adjustment, and (c) 4 percent salary increases. The accrual basis of accounting is utilized by the DIP fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

The following table discloses certain three-year historical trend information:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/02	$288	$3,104	9.3%	$2,816	$104,055	2.7%
7/1/04	286	2,960	9.7%	2,674	102,013	2.6%

* Valuation results for 7/1/2003 were not estimated.

** An actuarial valuation was not performed as of 7/1/2003 or 7/1/2005

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[Form of Bond Opinion]

[Closing Date]

$8,780,000
CITY OF ARLINGTON, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2006

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

> CITY OF ARLINGTON, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2006, dated July 15, 2006, in the principal amount of $8,780,000.
>
> The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1 of this issue.

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BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

> (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and
>
> (B) A continuing ad valorem tax upon all taxable property within the City of Arlington, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a limited pledge of the Surplus Revenues, as defined in the Ordinance, derived from Issuer's water and wastewater system; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

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

IT IS OUR FURTHER OPINION THAT:

> (1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and
>
> (2) The Certificates are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"),, and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer and the purchaser with respect to matters solely within the knowledge of the Issuer and the 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 which affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

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

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CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: ____________________ Policy No.: CIFG NA-##

CUSIP: _____________________ Effective Date: _______, 200_

OBLIGATIONS: ____

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By ____
Authorized Officer

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ARLINGTON