NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aaa"
Standard & Poor's "AAA"
(MBIA Insured: See "Bond Insurance" and "Ratings")

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

$24,000,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds
Series 2007

Dated: July 15, 2007 **Due: June 1, as shown below**

The $24,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2007 (the "Bonds") 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 Bonds. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2007.

Payment of the principal of and interest on the Bonds is unconditionally guaranteed by a municipal bond insurance policy issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[1]	Year	Interest Amount	Initial Reoffering Rate	Yield	Cusip Number[1]
2008	$ 1,200,000	4.250%	3.749%	04184K EM3	2018	$ 1,200,000	4.250%	4.320%	04184K EX9
2009	1,200,000	4.250%	3.840%	04184K EN1	2019	1,200,000	4.250%	4.410%	04184K EY7
2010	1,200,000	4.250%	3.870%	04184K EP6	2020	1,200,000	4.250%	4.480%	04184K EZ4
2011	1,200,000	4.250%	3.900%	04184K EQ4	2021	1,200,000	4.375%	4.540%	04184K FA8
2012	1,200,000	4.250%	3.940%	04184K ER2	2022	1,200,000	4.500%	4.610%	04184K FB6
2013	1,200,000	5.000%	3.950%	04184K ES0	2023	1,200,000	4.500%	4.630%	04184K FC4
2014	1,200,000	5.000%	4.010%	04184K ET8	2024	1,200,000	4.500%	4.650%	04184K FD2
2015	1,200,000	5.000%	4.060%	04184K EU5	2025	1,200,000	4.500%	4.680%	04184K FE0
2016	1,200,000	5.000%	4.130%	04184K EV3	2026	1,200,000	4.500%	4.680%	04184K FF7
2017	1,200,000	5.000%	4.200%	04184K EW1	2027	1,200,000	4.500%	4.680%	04184K FG5

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.

(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.

The date of this Official Statement is July 24, 2007.

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CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	8 years [1]	May, 2009	Doctor
Ron Wright Mayor Pro Tem	7 years	May, 2008	Congressman's District Director
Mel LeBlanc Council member	1 year	May, 2008	Account Manager
Sheri Capehart Council member	6 years [2]	May, 2008	Computer Security Analyst, Retired
Robert Rivera Council member	2 years	May, 2009	Real Estate Developer
Kathryn Wilemon Council member	4 years	May, 2009	Community Volunteer
Lana Wolff Council member	4 years	May, 2009	Community Volunteer
Steve McCollum Council member	7 years	May, 2008	Small Business Owner
Gene Patrick Council member	4 years	May, 2009	Small Business Owner

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

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Jim Holgersson	City Manager	2
Fiona Allen	Deputy City Manager – Capital Investment	15
Ron Olson	Deputy City Manager – Strategic Support	2
Gilbert Perales	Deputy City Manager – Neighborhood Services	(1)
Trey Yelverton	Deputy City Manager – Economic Development	14
Anna Mosqueda	Director, Financial Services	(2)
Jay Doegey	City Attorney	21
Barbara Heptig	City Secretary	10

(1) Employed with City since November, 2006.
(2) Employed with City since January, 2007.

ATTORNEY AND INDEPENDENT AUDITORS

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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.

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.

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.

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

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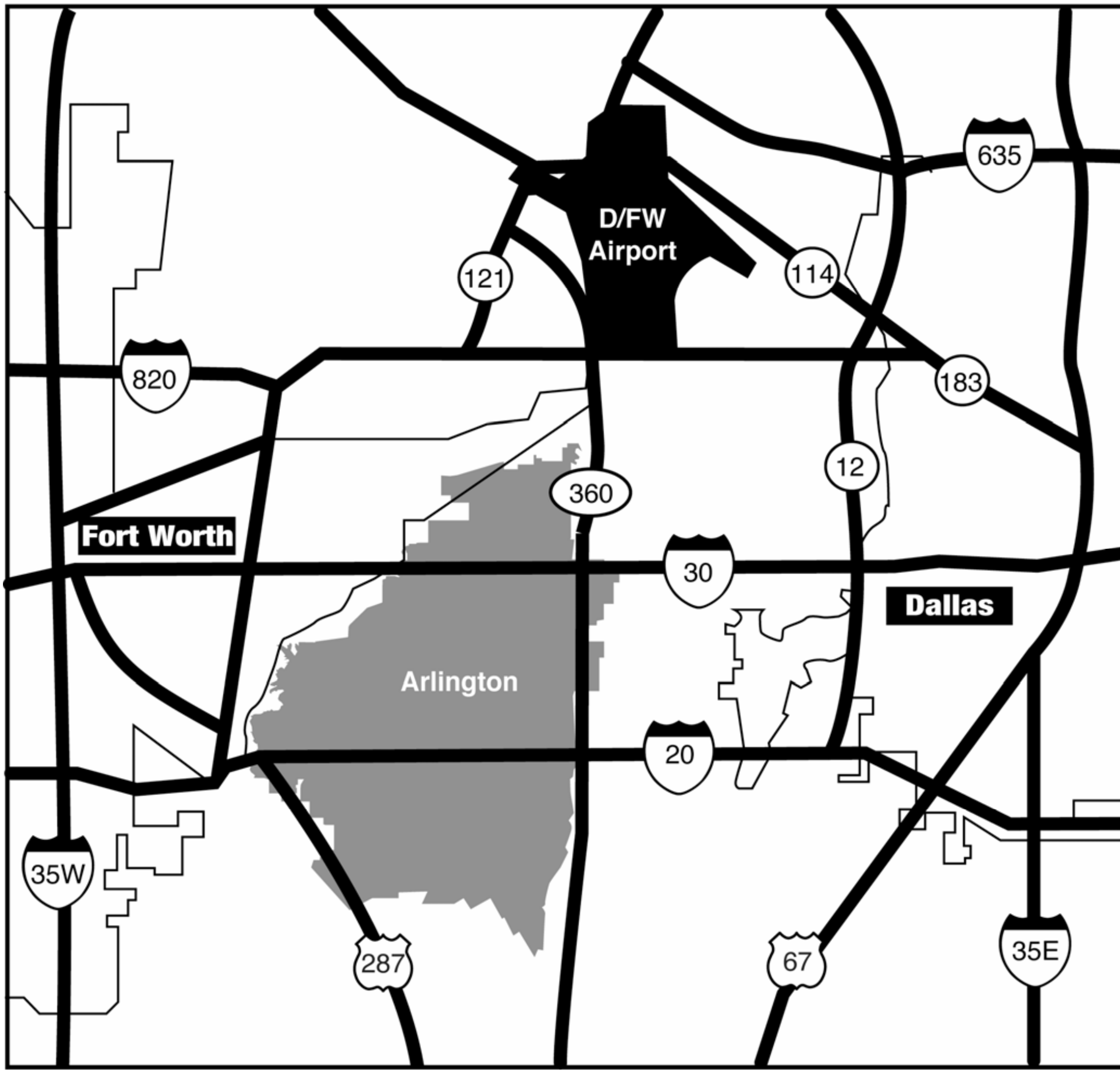
Dallas/Fort Worth/Arlington Metropolitan Area



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 362,393 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 System

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

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

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

The Bonds

$24,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2007 (the "Bonds"), dated July 15, 2007, mature on the dates and bear interest at the rates set forth on the cover of this Official Statement. Interest will be paid on December 1, 2007, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption.

Use of Proceeds

The proceeds of the Bonds are being used to improve and extend the System and to pay costs related to the issuance of the Bonds.

Security and Rate Covenant

The Bonds, together with certain outstanding previously issued bonds (the "Outstanding Bonds") and any additional parity bonds which may be issued in the future (the "Additional Bonds"), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a first lien on the Net Revenues (definition on page 13, paragraph (c)) of the System. **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

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

Debt Service Reserve Fund

The City has covenanted that it will maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate such Reserve Fund Requirement in not more than 60 months from the date of such Additional Bonds. Following delivery of the Bonds, the City will accumulate additional funds into the Reserve Fund, if necessary, to meet the Reserve Fund Requirement for the Bonds and the Outstanding Bonds. See "Selected Provisions of the Ordinance - Additional Provisions."

Optional Redemption

Bonds maturing on and after June 1, 2018, are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on June 1, 2017 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 Bonds a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, 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 Bonds 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 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations except as described below under "Section Two: The Bonds - Tax Exemption." In rendering the aforesaid opinion, the Attorney General of the State of Texas will review the transcript of proceedings relating to the Bonds, including the Bond initially delivered to the initial purchaser or purchasers of such Bonds.

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 Bonds 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 Bonds are contingent on the sale and delivery of the Bonds. Bond Counsel's fee for services rendered with respect to the sale of the Bonds is paid on a "per bond" basis.

The City will furnish to the initial purchaser of the Bonds a certificate, dated as of the date of delivery of the Bonds, 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 Bonds, or which affect the provisions made for their payments or security or in any manner question the validity of the Bonds.

Litigation

The City is currently involved in an employment lawsuit, *Lubke v. City of Arlington*, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the "Y2K" weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The case was tried to a jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case was appealed and remanded by the 5th Circuit. The case is currently before the trial court on issues of damages and the effect of the plaintiff's failure to disclose the judgment in a bankruptcy he filed during the appeal. Settlement negotiations with the bankruptcy trustee, who now owns the Judgment, were unsuccessful. The case is now styled *Reed v. City of Arlington.* The trial court will rule on the City's affirmative defense of judicial estoppel wherein the City contends that the bankruptcy trustee is barred from recovering on the Judgment because of the plaintiff's failure to disclose the Judgment in his bankruptcy. It is anticipated that the trial court will not rule in the City's favor. Further, the City anticipates that a damage award by the trial court will be approximately $800,000. However, the City strongly believes that if the trial court does not rule in its favor on the issue of judicial estoppel that the 5th Circuit will reverse the judgment on appeal and extinguish the Judgment. The City will continue to vigorously defend. The probability of an unfavorable outcome cannot be determined at this time. The range of exposure to the City in the event of an unsuccessful appeal is $800,000 to $1.5 million. The probability of an unfavorable outcome cannot be determined at this time. Accordingly, no accrual has been made.

The City is currently involved in an American with Disabilities Act discrimination lawsuit (*Frame, et al. v. City of Arlington*), in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City 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. A motion to dismiss is pending. 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 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 Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser or purchasers of the Bonds, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel. Delivery of the Bonds is expected on or about August 21, 2007.

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 Bonds, as described in Section Two herein "Book-Entry-Only System."

Ratings

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 have given the Bonds the rating of "AAA", "Aaa", and "AAA" respectfully with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by MBIA Insurance Corporation. The underlying rating for the outstanding Water and Wastewater System revenue debt of the City is rated AA+ by Fitch Ratings, Aa3 by Moody's Investors Service, Inc. and AA by Standard & Poor's Rating Services. 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 or all of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification

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

Payment Record

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

Sale and Marketability

After requesting competitive bids for the Bonds, the City accepted the bid resulting in the lowest true interest cost, which was tendered by a syndicate managed by Banc of America Securities LLC(the "Purchaser"), to purchase the Bonds bearing the interest rates shown under "Maturity Schedule," at a price of twenty-four million seventy-three thousand eight hundred seventy-six dollars and one cent ($24,073,876.01) and accrued interest to the date of delivery, which resulted in a true interest cost of 4.492783 percent. The true interest cost is a percentage rate which, when used to compute the total present value as of the date of the Bonds (July 15,2007) of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of par value of the Bonds plus any bond premium.

The City has no understanding with the Purchaser regarding the reoffering yields or prices of the Bonds, and has no control over trading of the Bonds after their initial sale by the City. Information concerning reoffering yield or prices is the responsibility of the Purchaser. The Purchaser will provide to the City on the next business day following the award of the bids information relating to the initial offering price of the Bonds. 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 Bonds, the City will furnish a certificate dated the date of delivery of the Bonds, 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 Bonds 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.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy [(the "Policy")].

MBIA 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 the Policy and MBIA set forth under the heading "Bond Insurance ". Additionally, MBIA makes no representation regarding the [Bonds/Securities] or the advisability of investing in the [Bonds/Securities].

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the [Issuer] to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the [Bonds/Securities] as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the [Bonds/Securities] pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any [Bonds/Securities]. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of [Bonds/Securities] upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the [Bonds/Securities] resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the [Bonds/Securities].

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a [Bond/Security] the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such [Bonds/Securities] or presentment of such other proof of ownership of the [Bonds/Securities], together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the [Bonds/Securities] as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the [Bonds/Securities] in any legal proceeding related to payment of insured amounts on the [Bonds/Securities], such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such [Bonds/Securities], less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the [Bonds/Securities], and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the [Bonds/Securities]. MBIA does not guaranty the market price of the [Bonds/Securities] nor does it guaranty that the ratings on the [Bonds/Securities] will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the [Bonds/Securities] offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "Section Three: The City of Arlington, Texas and The City's Water and Wastewater System; Section Four: Debt Structure and Capital Improvement Program; and Section Five: Financial Information Concerning The System." The City will update and provide this information within six months after the end of each fiscal year ending in or after 2007. 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 Bonds.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

ADDITIONAL INFORMATION

For additional information regarding this document please contact Ms. Corrine Steeger, Treasury Manager, City of Arlington, Texas, at (817) 459-6307.

SECTION TWO: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated July 15, 2007, and mature on the dates and bear interest at the per annum rates set forth on the cover of this Official Statement. Interest is payable on December 1, 2007, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing regulations and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The 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 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of Bonds, limitations on the investment of 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 Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer with respect to matters solely within the knowledge of the Issuer, 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 Bonds could become taxable from the date of delivery of the Bonds, 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 Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the 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 Bonds. 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 Bonds could adversely affect the value and liquidity of the Bonds 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 Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds "). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the 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 Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption " Collateral Tax Consequences " generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (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 Bonds 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 Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Book-Entry-Only System - General

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, 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 and www.dtc.org**.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or 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 Bonds 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, Bond 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 any redemption 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.

Security

The Bonds are special obligations of the City and, together with the Outstanding Bonds and any Additional Bonds, are payable solely out of Net Revenues derived from the operation of the System. The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by levy and execution against the property owned by the City.

The City has reserved the right to issue Additional Bonds on a parity with the Bonds and the Ordinance has provided for the funding of a Reserve Fund with respect thereto. See "Selected Provisions of the Ordinance" herein. Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

Rate Covenant

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

Optional Redemption

The City has reserved the right and option to redeem the Bonds scheduled to mature on or after June 1, 2018 prior to their scheduled maturities, in whole or in part, on June 1, 2017, 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 Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 30 days prior to any redemption date, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each Owner of a Bond to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the time such notice of redemption is mailed, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by an Owner. Such notice shall, among other things, identify the redemption date, the redemption price, the place at which the Bonds are to be redeemed and identify the Bonds or portions thereof to be redeemed. The notice of redemption shall also state that the Bonds so called for redemption shall cease to bear interest after the redemption date.

Redemption Procedures While Bonds Held by DTC

If the Bonds are being held by DTC under the book-entry system and less than all of such Bonds within a maturity are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each DTC Participant in such maturity to be called for redemption, and each DTC Participant is to then select by lot the ownership interest in each maturity to be redeemed. See "Book-Entry-Only System - General" herein.

In the event the Bonds are no longer in the book-entry form at DTC, if less than all the Bonds are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot within a maturity the Bonds or portions thereof to be redeemed.

Registration

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

For so long as DTC is the securities depository for the Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

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

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 Bonds. A successor Paying Agent/Registrar, if any, shall be determined by the City. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Obligation or portion thereof, called for redemption prior to maturity, within 30 days prior to the date fixed for redemption.

LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas 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 Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

SELECTED PROVISIONS OF THE ORDINANCE

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

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

Definitions

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

(b) The term "Bonds" means the City's Water and Wastewater System Revenue Bonds, Series 2007.

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

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

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

Rates

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

Various Funds

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

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

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

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

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

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

Additional Bonds

In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds, the Outstanding Bonds and any Additional Bonds then outstanding. The Additional Bonds shall be secured by and payable from a first and superior lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds, the Outstanding Bonds and any Additional Bonds; and the Bonds, the Outstanding Bonds, any then outstanding

Additional Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met:

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

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

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

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

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

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

Covenants by City

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

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

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

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

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

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

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

SECTION THREE: THE CITY OF ARLINGTON, TEXAS AND THE CITY'S WATER AND WASTEWATER SYSTEM

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

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

Deputy City Manager for Neighborhood Services – Mr. Gilbert Perales – with the City since January, 2007, has been the assistant city manager of Irving since April 2001. He received a Bachelors Degree in Art and a Master's Degree in Public Administration from St. Mary's University.

Chief Financial Officer – Ms. Anna Mosqueda – with the City since November 2006, she received her bachelor's degree in journalism from West Texas State University in Canyon and a master's degree in business administration from Texas Tech University. Prior to joining the City, she served as Director of Finance for the City of Greenville.

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.

FUNCTIONAL GROUPS

Governmental Services and Facilities

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

The City's main municipal facilities include two general administrative buildings and a public safety building. There are 16 fire stations, 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 four functional groups.

Neighborhood Services Group

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

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 146,408 calls for service in fiscal year 2006. 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 48,468 calls for service in fiscal year 2006. The 394 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 the management of the Bob Duncan Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical, social, cultural and environmental needs of the citizens of Arlington.

Economic Development Group

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

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

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

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

Capital Investment Group

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

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

The Water Utilities Department is responsible for assuring a continuous supply of safe high quality drinking water and collection and safe disposal of wastewater. 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 is structured in divisions focusing on Operations, Business Services, and Treatment. The Department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

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

Strategic Support Group

The Deputy City Manager for Strategic Support is responsible for the oversight and management of five City departments which include Management Resources, Financial 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 is also responsible for improving legislative and lobbying efforts as well as Public Information. 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.

WATER FACILITIES

Water Treatment Facilities

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

The rapid population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JKWTP), located on US Highway 287 at Eden Road. The JKWTP began serving Arlington's citizens in May, 1989. The plant receives its raw water directly from the Tarrant Regional Water District's (TRWD) Richland Chambers and Cedar Creek pipelines. Beginning in August 1998, TRWD also began delivering water from Lake Benbrook, a U.S. Army Corps of Engineers-owned reservoir. The JKWTP currently has a rated treatment capacity of 65 MGD and is currently under design for expansion to a treatment capacity of 97.5 MGD by the Fall of 2009. It can be further expanded as demand necessitates to an ultimate treatment capacity of 130 MGD.

The Distribution System

The City's water distribution system is divided into three pressure planes, referred to as the Upper pressure plane, Ridge Pointe pressure plane, and Lower pressure plane. The Upper and Ridge Pointe pressure planes are supplied by the JKWTP, which is a newer, more energy efficient plant and is operated at maximum capacity whenever possible. The Pierce-Burch Water Treatment Plant supplies the remaining volume necessary to meet citywide demand in the Lower pressure plane. With this arrangement, the JKWTP normally supplies all of the water required by the Upper and Ridge Pointe pressure planes, and as much of the water as is possible in the Lower pressure plane. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are nine elevated storage tanks and nine ground storage tanks with a combined capacity of 47.7 million gallons. A tenth elevated tank will be constructed in 2008.

The City's water distribution system is fully metered and consists of 1,378 miles of pipe. The system includes concrete cylinder, cast iron, polyvinyl chloride (PVC), and ductile iron pipes with a minimum diameter of six inches. The entire system meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency and the TCEQ.

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

Fiscal Year	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)
1997................................	49.53	99.48
1998.................................	58.47	121.97
1999.................................	56.20	108.31
2000.................................	63.89	128.23
2001.................................	57.96	113.14
2002.................................	57.76	112.88
2003.................................	57.13	120.02
2004.................................	54.68	91.19
2005.................................	57.49	95.41
2006………………………	67.26	116.72

Source: City Water Utilities Department.

Water Supply

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

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

On September 1, 1982, TRWD entered into a revised water supply contract ("Amendatory Contract") with the City, and the cities of Fort Worth and Mansfield, and TRA. The revised contract shall continue in effect until all bonds of TRWD relating to TRWD's System have been paid, and thereafter during the useful life of TRWD's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from TRWD. TRWD is obligated to meet the City's needs by developing additional water supply sources, subject to force majeure, the ability of TRWD to obtain suitable financing, and a determination of feasibility. If TRWD is unable to supply all of the City's raw water requirements or if it should become apparent that TRWD will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon TRWD to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if TRWD should fail to meet such needs. TRWD's current sources as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2035.

TRWD's most recent system enhancement was the Benbrook Connection Project, completed in the fall of 1998. It consists of approximately 35,000 feet of 90 inch diameter pipeline, approximately 20,000 feet of 108 inch diameter tunnel, a pump station at Lake Benbrook with a capacity of approximately 200 million gallons per day, an outlet structure at Lake Benbrook, and improvements to the existing balancing reservoirs. It now benefits all District customers by allowing TRWD to reduce electrical costs by using Benbrook for off peak pumping and storage.

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

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

- to fund a debt service reserve fund; and
- to pay the costs associated with the issuance of the Bonds.

Both the expansion to the water supply transmission system (pipeline) and the expansion to the wetland water treatment system for Richland Chambers Reservoir projects have begun, with $140,161,000 in contracts being let for the pipeline project and $15,564,000 in contracts being let for the wetland project.

Tarrant Regional Water District estimates that the existing and permitted water supply system has adequate water to meet its customers' projected water requirements through the year 2035. TRWD has participated in the statewide regional water planning effort authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Fort Worth region includes plans for TRWD to develop an additional 622 MGD through the year 2060 at an estimated cost of $3.6 billion.

Under the terms of the Amendatory Contract, the City pays TRWD an amount equal to the City's proportionate share of TRWD's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of TRWD's raw water supply facilities, debt service on TRWD's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in TRWD's bond resolutions. Based upon the projected usage of the City for the 2007 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,118,488, which results in a rate of approximately 62.167 cents per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay TRWD for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods.

The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirements to make such payments from the revenues of the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds, the Bonds and any additional Bonds.

Drought Contingency Plan

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

TRWD updated its Water Conservation and Drought Contingency Plan in May 2005, in accordance with Texas Commission on Environmental Quality (TCEQ) directives. TRWD’s customers had extensive input in defining drought conditions and prescribing conservation measures related to each drought condition. All major customers agreed to specific, staged measures related to emergency conditions brought on by drought-induced demands or failure of components in TRWD’s supply system. In addition, regular meetings are held where evolving conservation and emergency issues are discussed and incorporated into TRWD’s Plan. The Drought Contingency Plan is currently being reviewed by the District to propose revised triggers.

In conjunction with TRWD, the City adopted its own Water Conservation and Drought Contingency Plans in May 2005, as directed by the TCEQ. This Drought Contingency Plan identifies and explains water management practices that will protect water supplies during short and long term emergency situations. It includes information required by the TCEQ guidelines and requirements for the development of drought contingency plans by public drinking water suppliers. In addition, in May 2005, the City implemented a Water Conservation Plan, which identifies water conservation goals and identifies and explains conservation practices that will protect long term water supplies for the City of Arlington.

Two separate sets of Drought Contingency Plan conditions are presented below: one related to water supply capacity conditions and one related to excessive demand conditions. Each set of conditions triggers the same four-stage set of increasingly stringent water conservation measures.

TRWD’s current Drought Contingency Plan defines four water supply capacity conditions, each successively triggering increasingly stringent stages of conservation measures. The first condition would become effective “ . . . if at any time total water in storage in the TRWD West Fork reservoirs is projected to decline to 274,371 acre-feet (50 percent of capacity) within three months, based upon projected water demands and inflows." The second condition would become effective if " . . .water in storage in the TRWD West Fork reservoirs is projected to decline to less than 274,371 acre-feet (50 percent of capacity) within two weeks, based upon projected water demands and inflows, or water in storage in the TRWD reservoirs has declined to 1,393,875 acre-feet (60 percent of capacity)." The third condition would become effective when " . . . water in storage in the TRWD reservoirs has declined to 1,161,563 acre-feet (50 percent of capacity)." And the fourth condition is in place when " . . . water in storage in the TRWD reservoirs has declined to 580,781 acre-feet (25 percent of capacity)."

Similarly, the emergency demand management component of TRWD's Drought Contingency Plan defines four demand conditions requiring staged action. The first condition would become effective " . . . when TRWD's actual monthly demands are greater than 25% above anticipated monthly system demand". The second condition would become effective " . . . when TRWD's actual monthly demands are greater than 25% above anticipated monthly system demands for two consecutive months or when TRWD's East Texas delivery system (Cedar Creek Reservoir and Richland-Chambers Reservoir pipelines) demands reach 90 percent of capacity for three consecutive days." The third condition would become effective " . . . when demands exceed East Texas delivery system (Cedar Creek Reservoir and Richland-Chambers pipelines) capacity for a 24-hour period." And the fourth would be in place when, " . . . due to pipeline or equipment emergency (East Texas delivery system pipelines, or other facilities, as appropriate) or contamination, TRWD anticipates water deliveries to be adversely affected or otherwise disrupted."

The City is currently coordinating with TRWD to update its Drought Contingency Plan to include more water conservation measures and more conservative action triggers. Because of this proactive approach to addressing drought conditions and managing emergency demand, combined with historical planning and system development initiatives, the City does not anticipate any system supply problems. However, steps will be taken in the event of a prolonged drought to ensure that the financial condition of the System remains strong.

Consumer Analysis Data

The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2002, through September 30, 2006.

	Average Daily Consumption (MGD)				
Category	**2006**	**2005**	**2004**	**2003**	**2002**
Residential	35.49	27.72	25.50	27.47	26.07
Commercial	12.52	11.20	11.63	11.09	11.61
Fire lines, Sprinklers..	7.38	5.07	4.60	4.76	3.98
Apartment Units	9.00	8.77	9.03	9.14	9.64
Mobile Homes, Condominiums, Townhouses ...	.63	.80	.79	.84	.87
Total	65.02	53.56	51.55	53.30	52.17

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2002, through September 30, 2006.

	Number of Units Served				
Category	**2006**	**2005**	**2004**	**2003**	**2002**
Residential	90,080	89,613	88,289	86,444	84,774
Commercial	3,761	3,772	3,821	5,338	5,507
Fire lines, Sprinklers..	2,070	2,027	1,997	952	925
Apartment Units	45,971	45,093	41,059	45,838	45,397
Mobile Homes, Condominiums, Townhouses ...	4,344	4,222	4,166	4,252	4,252
Total	146,226	139,332	142,824	140,855	142,284

The following is a listing of the top ten water customers of the City, ranked by consumption during the fiscal year ended September 30, 2006. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 9.18 percent of the System's water sales, were as follows:

	Consumption in 1,000 Gallons	Billing
Arlington Independent School District	445,707	$1,269,956
City of Arlington	411,212	1,241,554
University of Texas at Arlington	334,051	813,451
National Semiconductor	303,578	573,019
EUSB/General Motors	279,870	536,574
Six Flags Park	115,435	247,818
Mansfield ISD	96,987	293,749
Oakwood Crossing Apartments	66,465	128,077
Arlington Memorial Hospital	66,249	134,497
Six Flags Hurricane Harbor	63,761	123,317
Total	2,183,315	$5,362,012

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

Historical Water Consumption Data
(Inside City Limits)

Fiscal Year Ended 9/30	Total Accounts In Service	Total Water Pumped MG	Average Water Pumped MGD	Maximum Day Pumpage MGD	GPD Per Account	Ratio Maximum Day to Average Day
2002	96,974	21,083	57.76	112.47	596	1.95
2003	99,144	20,853	57.13	120.02	583	2.10
2004	101,057	20,013	54.68	91.19	543	1.67
2005	102,421	20,984	57.49	95.41	561	1.66
2006	102,518	24,545	67.26	116.72	656	1.74

Source: City Water Utilities Department.

WASTEWATER FACILITIES

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

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

Wastewater Treated
(Millions of Gallons)

	2006	2005	2004	2003	2002
TRA CRWS Plant	13,942*	15,168	15,522	15,102	16,020

*unaudited

Treatment Contract with Trinity River Authority

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

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

TRA’s updated five-year capital improvement plan for 2004-2009 has been completed, including treatment process improvements and interceptor rehabilitation. Initial funds of $106 million were obtained from a 2004 bond issue. Additional bonds in the amount of $9.5 million were issued in 2005 for land acquisition and other related wastewater system improvements. The current plan calls for another bond issuance in 2007, to complete the objectives of the updated capital improvement plan.

The 162 MGD CRWS Plant is situated on a 500 acre site in Grand Prairie. The CRWS Plant uses a conventional activated sludge process enhanced for nitrification followed by filtration. Effluent quality discharged to the West Fork of the Trinity River has been excellent, meeting all regulatory requirements. The plant was selected by the state and federal regulatory agencies as the best large treatment plant in EPA's Region 6 five-state area during 1996 and has received the National Association of Clean Water Agencies Platinum Award for the second time in a row, each award signifying five continuous years of Gold Awards (100% permit compliance). The CRWS Plant has received another Gold Award for fiscal year 2005. A portion of the treated effluent is delivered for beneficial reuse to lakes in the Las Colinas area of Irving, where it is used for irrigation and lake and canal level control. Revenue from this sale is credited to the parties of the System.

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

For TRA's fiscal year beginning December 1, 2006, the volume of contributing flow by the City is estimated to average 42.85 MGD, which amounts to approximately 29 percent of the total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS Plant customers. The City's current cost of wastewater treatment under this contract budgeted for 2007 is $19,100,000.

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

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

Treatment Contract with City of Fort Worth

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

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2006 estimated population for the City of Arlington is 362,393. 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
2006	362,393	0.3	301,071,787	1.02

(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	$31,565	$31,295
Texas	30,732	29,452	28,846
United States	33,050	31,484	30,810

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. Serving a population of approximately 362,393, the public schools feature six high schools, twelve junior high schools, fifty-one elementary schools, one pre-kindergarten campus, one immigrant education campus, one alternative school and three discipline-management campuses. A professional staff of 4,041 serves a peak enrollment of 63,397 students.

The University of Texas at Arlington, founded in 1895, has a current enrollment of 25,352 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 9,971 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
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)
2007	63,397	1.02

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 2006, the City's unemployment rate averaged 4.8 percent compared to the U.S. rate of 4.7 percent and the Texas rate, which was 4.9 percent.

Unemployment Rate
Annual Average Rates
2002 to 2006

	2006	2005	2004	2003	2002
Arlington	4.8%	5.1%	5.8%	6.6%	6.5%
Texas	4.9	5.4	6.0	6.7	6.4
United States...........................	4.7	5.2	5.7	5.8	5.7

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 2006 the City issued 4,186 building permits with a total value of $526,898,085. Presented below is a table covering building permit activity for the last three fiscal years:

	2006		2005		2004	
	Permits	Value	Permits	Value	Permits	Value
New Single Family	1,115	$ 176,935,328	1,367	$189,234,000	1,707	$ 251,102,000
New Multifamily	35	11,601,815	25	12,731,000	81	38,871,000
New Commercial	77	161,884,888	414	75,003,000	474	60,439,000
New Institutional	6	76,073,574	45	25,149,000	47	49,089,000
Other (Additions, fences, etc)	2,953	100,402,480	3,857	31,109,000	4,509	44,196,000
GRAND TOTAL	**4,186**	**$ 526,898,085**	**5,708**	**$333,226,000**	**6,818**	**$ 443,697,000**

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, 2007, 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	33.4%
Federal Agencies	35.7
Statewide Pool	29.0
Money Market Account	1.9
Totals	100.0%

As of May 31, 2007, the weighted average maturity of the City's operating portfolio was 147 days and the market value of the operating portfolio was 99.94 percent of its book value.

SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

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

DEBT SERVICE REQUIREMENTS
WATER AND WASTEWATER SYSTEM REVENUE BONDS

Fiscal Year Ending 9/30	Outstanding Bonds[1] Principal	Interest	Total	The Bonds[2] Principal	Interest	Total	Total Debt Service
2008	$7,030,000	$3,239,566	$10,269,566	$1,200,000	$ 843,500.00	$2,043,500	$12,313,066
2009	6,990,000	2,965,350	9,955,350	1,200,000	1,033,500.00	2,233,500	12,188,850
2010	6,945,000	2,683,242	9,628,242	1,200,000	982,500.00	2,182,500	11,810,742
2011	6,295,000	2,410,571	8,705,571	1,200,000	931,500.00	2,131,500	10,837,071
2012	5,955,000	2,146,753	8,101,753	1,200,000	880,500.00	2,080,500	10,182,253
2013	5,505,000	1,884,702	7,389,702	1,200,000	829,500.00	2,029,500	9,419,202
2014	5,065,000	1,637,073	6,702,073	1,200,000	769,500.00	1,969,500	8,671,573
2015	5,050,000	1,404,152	6,454,152	1,200,000	709,500.00	1,909,500	8,363,652
2016	4,525,000	1,178,733	5,703,733	1,200,000	649,500.00	1,849,500	7,553,233
2017	3,925,000	972,757	4,897,757	1,200,000	589,500.00	1,789,500	6,687,257
2018	3,925,000	795,938	4,720,938	1,200,000	529,500.00	1,729,500	6,450,438
2019	3,525,000	618,327	4,143,327	1,200,000	478,500.00	1,678,500	5,821,827
2020	3,525,000	457,809	3,982,809	1,200,000	427,500.00	1,627,500	5,610,309
2021	2,490,000	295,828	2,785,828	1,200,000	376,500.00	1,576,500	4,362,328
2022	1,680,000	184,362	1,864,362	1,200,000	324,000.00	1,524,000	3,388,362
2023	1,680,000	112,961	1,792,961	1,200,000	270,000.00	1,470,000	3,262,961
2024	890,000	40,050	930,050	1,200,000	216,000.00	1,416,000	2,346,050
2025	0	0	0	1,200,000	162,000.00	1,362,000	1,362,000
2026	0	0	0	1,200,000	108,000.00	1,308,000	1,308,000
2027	0	0	0	1,200,000	54,000.00	1,254,000	1,254,000
	$75,000,000	**$23,028,174**	**$98,028,174**	**$24,000,000**	**$11,165,000**	**$35,165,000**	**$133,193,174**

[1] As of July 23, 2007
[2] FY 2008 interest is net of $108,450 accrued interest.

Source: City Financial Services Department.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The City's Water Utilities Department maintains a program of annually updating its estimate of projected system capital improvements. The Department anticipates a capital investment in the combined utility system of $128.8 million for new construction projects through fiscal year 2011, of which approximately $104.1 million of that total will be obtained through bond proceeds, $24.7 million from available bond funds and $10.0 million in pay-as-you-go funding. In addition, $42.8 million will be transferred through fiscal year 2011 from current revenues for use on renewal projects.

Future projects will include improvements to the system's two water treatment plants, including expansion of the John F. Kubala Water Treatment Plant and chemical feed improvements at the Pierce-Burch Water Treatment Plant. Planned capital expenditures on the two water plants will exceed $33 million over the next three years. The proposed capital improvement program through fiscal year 2011 is illustrated in the table below.

Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Capital Financing Sources [1]
2007	36,490,575	24,000,000	12,490,575
2008	42,087,862	29,100,000	12,987,862
2009	27,750,000	17,000,000	10,750,000
2010	27,750,000	17,000,000	10,750,000
2011	27,750,000	17,000,000	10,750,000

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

SECTION FIVE: FINANCIAL INFORMATION CONCERNING THE SYSTEM

WATER AND WASTEWATER RATES

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

In August 2003, the City Council approved transitioning to a phased cost of service rate methodology and the introduction of conservation rate blocks. In order to minimize the impact to rate payers of implementing a full cost of service rate structure, cost of service rates are being phased in over a five-year period, which began with fiscal year 2004. The two components of the rate structure are a fixed monthly charge based upon meter size and a commodity charge per 1,000 gallons used. Fiscal year 2007 is year four of the five-year plan.

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

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

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE

Meter Size	Water	Wastewater
3/4" (<2,000 gal)	$ 4.40	$ 3.60
3/4" (>2,000 gal)	7.55	6.93
1"	13.21	12.13
1 1/2"	30.20	27.72
2"	51.79	44.28
3"	117.27	57.77
4"	188.24	100.18
6"	437.91	228.80
8"	685.83	360.76
10"	1,030.20	541.11

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 - 2	$1.32	$2.58
3 - 10	1.56	2.58
11 - 15	2.40	2.58
≥ 16	3.00	2.58

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	$1.51	$2.58
≥ 16	1.84	2.58

SPRINKLER

Usage (1,000 gal)	Rate
All Usage	$3.00

Historical Rate Adjustments

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

Rate Changes by Percent
Last Ten Fiscal Years
Per 10,000 Gallon Residential Usage

Fiscal Year	Water	Wastewater	Total
1998	0.0	0.0	0.0
1999	0.0	0.0	0.0
2000	(3.2)	0.0	(2.1)
2001	(1.6)	0.0	(1.1)
2002	1.7	1.6	1.7
2003	0.0	0.0	0.0
2004	(8.4)	46.9	10.7
2005	2.6	3.4	2.9
2006	0.0	4.2	1.9
2007	(1.1)	10.2	4.2

Source: City Water Utilities Department.

Operating Reserve

The current policy, authorized by the City Council in May 2003, requires the operating reserve to equal a minimum of 45 days of the proposed operating and maintenance expense budget, excluding debt service. Additionally, the reserve can be increased to a 60 day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2006, was $11,412,609, which equals 60 days of operating and maintenance expense.

HISTORICAL FINANCIAL INFORMATION

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

WATER AND WASTEWATER SYSTEM SCHEDULE OF NET ASSETS
Fiscal Year Ended September 30
(amounts in thousands)

Assets	2006	2005	2004	2003	2002
Cash and cash equivalents	$13,183	$12,526	$11,777	$9,986	$6,748
Receivable (net of allowances for uncollectibles)	14,391	13,746	11,560	11,867	12,500
Inventory of supplies, at cost	404	432	482	359	406
Restricted assets:					
Bond contingency	10,586	11,612	10,884	10,907	12,282
Capital/Bond construction	43,209	39,516	32,491	22,509	35,295
Meter deposits	4,129	3,996	3,635	3,597	3,522
Property, plant and equipment less accumulated depreciation	451,030	436,325	414,073	394,598	378,747
Total Assets	$536,932	$518,153	$484,902	$453,823	$449,500
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$4,465	$4,348	$3,627	$2,564	$3,766
Payable from restricted assets	10,254	11,262	10,712	10,215	10,871
Accrued compensated absences					
Current	112	71	85	64	55
Non Current/Long Term	1,548	1,481	1,593	1,600	1,575
Revenue bonds, net of discount, payable from unrestricted assets	80,844	90,779	83,927	79,411	90,720
Total Liabilities	$97,223	$107,941	$99,944	$93,854	$106,987
Net Assets/Equity:					
Invested in Capital Assets	387,534	364,678	342,545	317,563	299,616
Restricted	9,273	10,041	9,460	9,638	-
Unrestricted	42,902	35,493	32,953	32,768	42,897
Total Assets/Equity	$439,709	$410,212	$384,958	$359,969	$342,513
Total Liabilities and Net Assets/Equity	$536,932	$518,153	$484,902	$453,823	$449,500

HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE
Fiscal Year Ended September 30
(amounts in thousands)

Revenues	**2006**	**2005**	**2004**	**2003**	**2002**
Water Sales	$58,571	$50,034	$44,857	$47,206	$45,855
Wastewater Service	38,052	37,094	37,615	30,058	29,733
Interest Income	2,930	1,731	1,112	1,209	1,893
Other Income	6,122	5,016	6,002	4,626	5,159
Total Revenues	$105,675	$93,875	$89,586	$83,099	$82,640
Expenses					
Labor Costs	$12,846	$13,848	$13,018	$12,646	$12,366
Supplies	2,937	2,226	1,924	1,739	1,898
Maintenance	2,764	2,105	1,964	2,030	2,361
Water Supply (The District)	13,738	10,761	12,697	12,423	13,059
Wastewater Treatment Contracts	18,179	15,906	16,070	15,959	16,091
Utilities	3,831	2,505	1,907	2,528	1,392
Other Expenses [1]	8,876	7,788	9,977	9,984	10,315
Total Operating Expenses Before Depreciation	$63,171	$55,139	$57,557	$57,309	$57,482
Net Revenues of the System	$42,504	$38,736	$32,029	$25,790	$25,158
Interest During Construction Included Above	(756)	(553)	(317)	(208)	(474)
Net Revenues Available for Debt Service	$41,748	$38,183	$31,712	$25,582	$24,684
Debt Service Paid [2]	$14,508	$14,115	$14,522	$16,188	$16,234
Debt Service Coverage (times)	2.88 x	2.71 x	2.18 x	1.58 x	1.52 x

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

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

HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS
Fiscal Year Ended September 30
(amounts in thousands)

	2006	2005	2004	2003	2002
Gross Operating Revenues	$102,745	$92,144	$88,474	$81,890	$80,747
Interest Revenues (Excluding Interest During Construction)	1,178	1,178	795	1,001	1,419
Operating Expenses Before Depreciation [1]	63,171	55,139	57,557	57,309	57,482
Net Revenues Available for Debt Service	$40,752	$38,183	$31,712	$25,582	$24,684
Average Annual Debt Service	$6,176	$6,615	$6,078	$6,066	$6,664
Average Annual Debt Service Coverage (times) [2]	6.60 x	5.77 x	5.22 x	4.22 x	3.70 x
Accounts Receivable to Gross Operating Revenues (%)	14.01%	14.92%	13.07%	14.49%	15.48%
Unrestricted Cash to Unrestricted Current Liabilities (times) [2]	2.88 x	2.83 x	3.19 x	3.80 x	1.77 x
Unrestricted Current Assets to Unrestricted Current Liabilities (times) [2]	6.11 x	6.04 x	6.44 x	8.45 x	5.14 x
Long-term Debt to Net Plant (%)	19%	22%	19%	18%	22%

[1] Beginning in 2005, Payment in Lieu of Taxes was not included in Operating Expenses.
[2] Revenue Bonds payable excluded from unrestricted current liabilities.

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 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 4/1/06):

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

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

For 2006, the City’s annual pension cost of $14,512,396 was equal to the City’s required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City’s unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/04	$13,955,035	100.00%	-
9/30/05	14,671,901	100.00%	-
9/30/06	14,512,396	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, 510 retirees met the eligibility requirements. Benefits and expenditures of $2,298,584 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. Subsequent actuarial studies and actual fund performance allowed continuation through September 30, 2006. As of September 30, 2006, total current assets less both current and non-current claims payable, was $1,060,441. Beginning in fiscal year 2007, funding for the self-insurance plan is provided by annual transfers from budgeted operating funds.

EXECUTION

This Official Statement was approved and the execution and delivery of this Official Statement authorized by the City of Arlington, Texas on _______________, 2007.

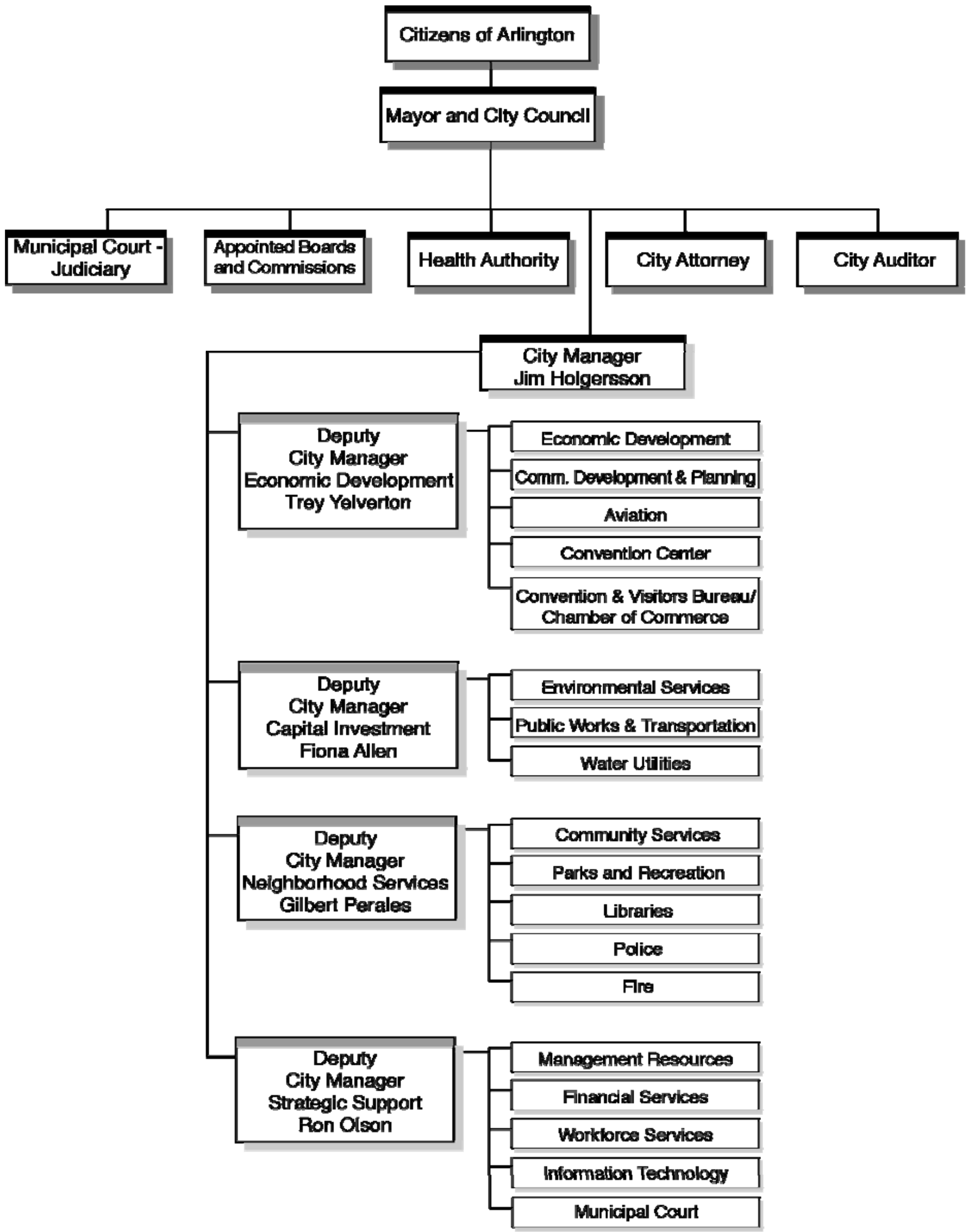
____
Mayor, City of Arlington, Texas

ATTEST:

____
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 2006

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2006 may be obtained from the City's Treasury Manager.

CITY OF ARLINGTON, TEXAS
BASIC FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006
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Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2006, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 19.22% and 0.72%, respectively, of total component unit assets as of September 30, 2006, and total operating revenues constituting 83.52% and 8.57%, respectively, of total component unit operating revenues for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc. is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement 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, the Schedule of Funding Progress—TMRS, the Schedule of Funding Progress—Part Time Deferred Income Trust, and the Schedule of Funding Progress—Disability Income Plan 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 and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

March 7, 2007

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

SEPTEMBER 30, 2006

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, 2006. 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 $119.1 million or 24.6 percent this year, primarily because of an increase in funding construction in progress of approximately $95.4 million. The increase in construction in progress is attributable to the ongoing construction of the Dallas Cowboys Complex Development Project (Complex Project). This year, the city recorded an increase in construction costs of $109.9 million which includes $70.2 million in contributions from the Cowboys Stadium, L.P.

- The City's increase in total net assets of $148.8 million for the year ended September 30, 2006 was $96.5 million higher than the increase of $52.3 million for the year ended September 30, 2005. This $96.5 million is primarily attributable to the $70.2 million in construction contributions for the Complex Project from the Cowboys Stadium, L.P. The balance of the increase is due to a $16.0 million increase in sales tax revenue and a $13.9 million increase in interest income.

- As of September 30, 2006, the City of Arlington's governmental funds reported combined ending fund balances of $411.6 million, a decrease of $8.7 million in comparison with the prior fiscal year. The majority of this change is due to an increase in overall General Fund revenues of $22.2 million, offset by an increase in the Stadium Venue Fund's capital outlay (net of the Cowboys Stadium, L.P. contribution) of $12.2 million.

- At the end of the current fiscal year, unreserved General Fund balance was $60.9 million compared to $48.0 million last year. Last year, $22.7 million of unreserved fund balance was designated for future needs such as working capital requirements and subsequent years' expenditures. Additionally, $19.9 million of fund balance was designated as landfill lease proceeds, leaving $5.4 million as unreserved, undesignated fund balance. This year, $24.7 of unreserved fund balance was designated for future needs and $20.6 million of landfill proceeds was designated for one-time special projects. A new designation for gas lease proceeds of $5.0 million was created, leaving $10.6 million as undesignated and unreserved.

- The City's total debt of $646.3 million has decreased $26.1 million during the fiscal year. This year, the City issued $2 million of short-term commercial paper, and $8.78 million of Combination Tax and Revenue Certificates of Obligation while paying down $36.9 million on existing obligations. Of the total debt, $562.3

million relates to the operation of the general government and $84.0 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 and transportation, 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 one blended component unit in its report – Arlington Property Finance Authority, Inc. The City includes five discretely presented component units in its report – Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Convention and Visitors Bureau, Arlington Housing Finance Corporation and Arlington Industrial Corporation. Although legally separate, these component units are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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 $1.0 billion as of September 30, 2006. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are $440.2 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 (88.1 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 481	$ 483	$ 86	$ 82	$ 567	$ 565
Capital assets	755	647	451	436	1,206	1,083
Total assets	1,236	1,130	537	518	1,773	1,648
Long-term liabilities	570	586	76	85	646	671
Other liabilities	63	60	21	23	84	83
Total liabilities	633	646	97	108	730	754
Net assets:						
Invested in capital assets, net of related debt	510	409	409	381	919	790
Restricted	26	20	10	10	36	30
Unrestricted	67	55	21	20	88	75
Total net assets	$ 603	$ 484	$ 440	$ 411	$ 1,043	$ 895

Governmental Activities

The City's general revenues increased when compared to the prior year by 16.3 percent or $34.5 million. The primary reason for this increase was due to a $20.2 million or 11.9 percent increase in overall tax revenue this year vs. last year. Sales tax revenue increased $16.0 million as a result of a mildly improving local economy. Property tax revenue increased $3.2 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 $544.3 million or 3.5 percent while the property tax rate of $0.6480 per $100 assessed valuation remained the same as in 2005. Interest income increased $13.9 million primarily due to investing the proceeds of the Dallas Cowboy Complex Special Obligations, less costs related to the City's portion of construction of the Dallas Cowboy Complex, for a full year this year. They were issued on July 15, 2005 and therefore the proceeds only earned interest income for two and a half months last year.

Table 2
General Revenues
(Amounts Expressed In Thousands)

	2006	2005	Increase (Decrease)
Property Taxes	$ 104,425	$ 101,235	$ 3,190
Sales Taxes	76,483	60,476	16,007
Other Taxes	8,319	7,286	1,033
Utility franchise fees	31,140	28,928	2,212
Interest income	19,513	5,642	13,871
Other revenue	6,196	7,986	(1,790)
Total general revenues	$ 246,076	$ 211,553	$ 34,523

Governmental and Business-type activities increased the City's net assets by $148.8 million for the year ended September 30, 2006 and $52.3 million for the year ended September 30, 2005. 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	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	$44,184	$ 36,105	$ 102,745	$ 96,628	$ 146,929	$ 132,733
Operating grants and contributions	13,846	8,144	-	-	13,846	8,144
Capital grants and contributions	77,683	4,849	5,529	3,676	83,212	8,525
General Revenues:						
Taxes	189,227	168,997	-	-	189,227	168,997
Utility franchise fees	31,140	28,928	-	-	31,140	28,928
Interest Income	19,513	5,642	-	-	19,513	5,642
Other	6,196	7,986	2,301	1,199	8,497	9,185
Total revenues	381,789	260,651	110,575	101,503	492,364	362,154
Expenditures/Expenses:						
General government	31,812	26,906	-	-	31,812	26,906
Public safety	102,363	97,645	-	-	102,363	97,645
Public works	66,019	64,369	-	-	66,019	64,369
Public health	1,697	2,416	-	-	1,697	2,416
Parks and recreation	27,761	23,262	-	-	27,761	23,262
Public welfare	9,408	6,383	-	-	9,408	6,383
Convention and event services	5,094	5,435	-	-	5,094	5,435
Interest and fiscal charges	24,923	13,898	-	-	24,923	13,898
Water and sewer	-	-	74,516	65,220	74,516	65,220
Landfill	-	-	-	4,310	-	4,310
Total expenditures/expenses	269,077	240,314	74,516	69,530	343,593	309,844
Increase in net assets before transfers	112,712	20,337	36,059	31,973	148,771	52,310
Transfers	6,432	40,563	(6,432)	(40,563)	-	-
Increase in net assets	119,144	60,900	29,627	(8,590)	148,771	52,310
Net Assets, October 1,	484,278	423,378	410,617	419,207	894,895	842,585
Net Assets, September 30	$ 603,422	$ 484,278	$ 440,244	$ 410,617	$ 1,043,666	$ 894,895

The most significant governmental expenditure for the City was in the area of public safety, which incurred expenditures of $102.4 million, representing a $4.8 million increase when compared to the prior fiscal year. The major components of public safety are police and fire. Police accounted for $68.1 million in public safety expenditures this year compared to $64.1 million last year, a 6.2 percent increase. Salary and benefits of $56.0 million comprised 82.2 percent of Police expenditures for the year ended September 30, 2006 as compared to salary and benefit expenditures of $54.8 million equaling 85.5 percent of last year's expenditures. The increase in salary and benefit expenditures is the result of general pay increases. These expenditures were offset by revenues collected from a variety of sources, with the largest amount coming from fines and forfeitures, which were $7.7 million for the fiscal year ending September 30, 2006, an increase of $1.4 million or 22.2 percent. Fines and forfeitures revenues increased in 2006 due to a partial resolution of performance issues with the implementation of the new Municipal Court system, resulting in increased efficiencies. Fire accounted for $33.5 million in public safety expenditures this year, substantially unchanged from $33.1 million last year. Salary and benefits of $28.1 million made up 83.9 percent of Fire expenditures for the year ended September 30, 2006 compared to salary and benefit expenditures of $28.4 million comprising 85.8 percent of last year's expenditures. The decrease in salary and benefit expenditures is primarily attributable to a slight decrease in employee insurance expenditures.

Business-type Activities

Revenues of the City's business-type activities were $110.5 million for the fiscal year ending September 30, 2006. Revenues increased by approximately $9.1 million or 9 percent. Expenses for the City's business-type activities were $80.1 million for the year, an increase of $8 million or 11.1 percent. The increase in net revenues is due to an increase in water sales as a result of a warmer, drier summer this year.

The City's water and sewer system recorded charges for services of $102.7 million, an increase of $10.6 million over last year, and a non-cash revenue source of $5.5 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 $102.7 million exceeded expenses of $74.5 million by $28.2 million. The most significant expenses of the water and sewer fund were $13.7 million to purchase water, $18.1 million for the purchase of sewage treatment and $12.8 million in salaries and benefits. Overall the City's water and sewer system's net revenues of $29.5 million (including developer contributions) for this year were 1.4 million, or 5.0 percent higher than last year's net revenue of $28.1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2006, the City had $1.21 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 $122.4 million or 11.3 percent over the prior fiscal year. The $122.4 million increase combines a $107.7 million increase in Governmental Activities with a $14.7 million increase in Business-type Activities. The increase in Governmental Activities is mostly due to $109.9 in capital outlay related to the Cowboys Stadium Complex Project. The increase in Business-type Activities is due to increased capital outlays for the water and sewer system. Footnote 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	
	2006	2005	2006	2005	2006	2005
Land	$ 80,600	$ 80,600	$ 4,828	$ 4,828	$ 85,428	$ 85,428
Buildings and improvements	121,901	113,746	1,869	1,922	123,770	115,668
Equipment	17,645	16,192	287	395	17,932	16,587
Construction in progress	244,903	149,522	76,987	76,520	321,890	226,042
Infrastructure	289,373	286,654	-	-	289,373	286,654
Water and sewer system	-	-	367,059	352,660	367,059	352,660
Totals	$ 754,422	$ 646,714	$ 451,030	$ 436,325	$ 1,205,452	$ 1,083,039

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

- Private developer capital contributions of $5.5 million to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments
- Capital outlay of $109.9 million for the Complex Project, funded in part by a $70.2 million contribution from the Cowboys Stadium, L.P.
- Water and sewer system capital improvements and expansion totaling $18.9 million
- A variety of storm drainage and street construction projects with capital outlay totaling $19.7 million
- Various capital outlays totaling $3.4 million for improvement of the City's parks and recreation facilities
- Various capital outlays of $1.5 million for police and fire public safety improvements

Debt

At year-end, the City had $644.3 million in General Obligation Bonds, Special Obligation Bonds, Revenue Bonds and Combination Tax and Revenue Certificates of Obligations outstanding, a decrease from last years' $672.4 million as shown in Table 5.

Table 5
Outstanding Debt
(Amounts Expressed In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds (backed by the City)	$ 229,538	$ 252,027	$ -	$ -	$ 229,538	$ 252,027
Combination tax and revenue certificates of obligation (backed by the City)	25,935	20,590	-	-	25,935	20,590
Special tax revenue bonds	304,855	305,609			304,855	305,609
Revenue bonds (backed by fee revenues)	-	-	84,014	94,206	84,014	94,206
Totals	$ 560,328	$ 578,226	$ 84,014	$ 94,206	$ 644,342	$ 672,432

On July 25, 2006, the City issued $8.78 million of Combination Tax and Revenue Certificates of Obligation to make various capital improvements. Additionally, the City issued $2.0 million in short term commercial paper for interim funding of the general obligation debt. 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 Aa2 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 1.6 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 $10.4 million at September 30, 2006 compared to $11.5 million at September 30, 2005.

DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT

In February of 2005, the City, as landlord, and the Cowboys Stadium, L.P., as tenant, entered into a funding and closing agreement for the Dallas Cowboys Complex Development Project (Complex). Pursuant to the agreement, the City will pay half the cost, up to $325 million, to build the Complex. In July of 2005, the City issued $298.0 million Dallas Cowboy Complex Special Obligations, pledging ½ cent sales tax, two percent hotel occupancy tax and five percent car rental tax. The proceeds of the bond sale, along with interest earnings and excess revenues from the pledged taxes, will provide the City's funding for the Complex.

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

In July of 2006, $147,865,000 of Dallas Cowboy Complex Admissions and Parking Tax Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Cowboys Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium L.P. The proceeds of the bond sale, along with interest earnings, will provide a portion of the Cowboy's funding for the project. The bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources. The bonds do not constitute a debt or pledge of the faith and credit of the City and are not reported as a liability in the City's financial statements but are disclosed as conduit debt.

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

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2006, the governmental funds of the City reported a combined fund balance of $411.6 million. This ending balance includes an increase in fund balance of $14.1 million in the City's General Fund. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of $20.6 million is substantially unchanged from last year's fund balance of $20.2 million.

- The City recorded contribution in aid of construction for $70.2 million from the Cowboys Stadium, L.P. and expended $113.5 million for the Cowboys Stadium Complex Project, contributing to a net decrease in fund balance of $21.0 million in the Stadium Venue Fund. This fund was created to account for the construction for the Cowboys Stadium Complex Project and has an ending fund balance of $247.9 million.

- The City's water and sewer fund net assets of $439.7 million increased by $29.5 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $29.2 million.

General Fund Budgetary Highlights

During FY 2005-06, there were budget amendments for the General Fund. These amendments were in the amount of $1,208,000. The additional budgeted expenditures were to fund electricity costs, an additional police academy class, and three studies-an IT Management Study, Rush Creek Drainage Study, and Disparity Study (related to minority contract participation).

For FY 2005-06, actual expenditures on a budgetary basis were $167.9 million compared to the budget amount of $173.7 million. The $5.8 million positive variance was due to savings achieved through budgeted but vacant positions throughout various departments.

For FY 2005-06, actual revenues on a budgetary basis were $182.9 million as compared to the budget amount of $179.4 million.

The City of Arlington has an actual on a budgetary basis General Fund balance of $70.1 million as of the fiscal year-end, compared to the budgeted fund balance of $19.9 million. The variance in fund balance is primarily due to revenue from the landfill lease and from various natural gas lease bonuses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities. The City is starting to see an improving revenue picture, yet continues an ongoing diligent examination of expenditures. This combination supports an environment of cautious optimism for fiscal 2007. The City is experiencing some positive economic growth and the tax base is growing at a steady rate. Sales tax revenues have stabilized and are expected to increase 5 percent for fiscal 2007. Assessed property tax values continue to grow, but at a slower rate than previous years.

For the 2007 fiscal year, the City continues to face short-term budgetary challenges and has made an effort to identify areas where resources can be reallocated, not added. As a result, the City's total General Fund revenues for 2006-2007 are budgeted at $186.7 million, up 8.8% over the 2005-2006 period, while total General Fund expenditures are $191.6 million, up 11.2% for the same time period.

The General Fund's largest single revenue source for the General Fund is property taxes. This revenue represents 39.7 percent of the General Fund's budget. The property tax rate for FY 2007 is $0.6480 per $100 valuation, unchanged since 2004. Of this tax rate, 69.0 percent or $0.4468 is utilized for General Fund activities. The remaining 31.0 percent or $0.2012 is used for debt service. The General Fund's portion of property tax revenue for FY 2007 is estimated to be $73.9 million up $5.8 million or 8.5 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 2007 is estimated at $44.5 million, up $4.1 million or 10.1 percent over last year's budgeted figure.

The largest revenue sources for the Water and Sewer Fund is water sales at $48.0 million. This is the charge for potable 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 2007 range from $1.32 per 1,000 gallons for the first 2,000 gallons of consumption to $3.00 per 1,000 gallons of consumption. The rate for fiscal year 2006 ranged from $1.36 per 1,000 gallons for the first 2,000 gallons of consumption to $2.80 per 1,000 gallons of consumption. These rates incorporate the cost of raw water, treatment, distribution and maintenance costs. The second largest revenue source for the Water and Sewer Fund is wastewater treatment charges. The total revenue expected is $41.5 million based on a fiscal year 2007 rate of $2.58 per 1,000 gallons, $0.15 higher than lat year's rate of $2.43 per 1,000 gallons. The total revenue for the Water and Sewer Fund is budgeted at $96.7 million for fiscal year 2007.

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 Financial Services 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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 176,769	$ 13,183	$ 189,952	$ 8,717
Investments	-	-	-	12,782
Receivables (net of allowance for uncollectibles):				
Taxes	5,143	-	5,143	-
Sales taxes	14,172	-	14,172	-
Grants	-	-	-	1,694
Leases	-	-	-	18,910
Trade accounts	261	6,837	7,098	-
Franchise fees	7,093	-	7,093	-
Unbilled trade accounts	-	7,424	7,424	-
Special assessments	361	-	361	-
Accrued interest	1,606	-	1,606	21
Settlement agreement	-	-	-	11,228
Other	3,179	130	3,309	212
Internal balances	(535)	535	-	-
Due from component units	232	-	232	-
Due from other governments	3,561	-	3,561	-
Deferred charge - issuance costs	4,196	-	4,196	-
Inventory of supplies	325	404	729	9
Prepaid expenses	184	-	184	27
Restricted assets-				
Cash	48,971	-	48,971	-
Bond contingency-				
Investments	10,303	10,483	20,786	-
Accrued interest receivable	120	103	223	-
Capital construction-				
Investments	199,542	43,205	242,747	-
Accrued interest receivable	1,950	-	1,950	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	4,129	4,129	-
Closure/Post-closure trust fund	4,722	-	4,722	-
Capital Assets-				
Land	80,600	4,828	85,428	-
Buildings and improvements	190,378	2,833	193,211	2,739
Water and sewer system	-	528,277	528,277	-
Machinery and equipment	50,325	9,889	60,214	1,175
Infrastructure	760,720	-	760,720	-
Construction in progress	244,903	76,987	321,890	-
Accumulated depreciation	(572,504)	(171,784)	(744,288)	(1,881)
Total Assets	$ 1,236,577	$ 537,467	$ 1,774,044	$ 55,633

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, 2006
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Accounts payable and accrued liabilities	$ 9,257	$ 4,465	$ 13,722	$ 1,301
Retainage payable	651	-	651	-
Due to primary government	-	-	-	202
Due to other governments	24	-	24	-
Unearned revenue	17,517	-	17,517	2
Accrued interest	1,548	-	1,548	-
Commercial Paper	2,000	-	2,000	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	973	973	-
Retainage payable	-	769	769	-
Accrued interest	-	1,210	1,210	-
Revenue bonds payable, current	-	3,170	3,170	-
Meter deposits	-	4,132	4,132	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	5,815	-	5,815	-
Sales tax payable	149	-	149	74
General obligation debt	24,415	-	24,415	-
Accrued compensated absences	1,303	112	1,415	-
Capital lease obligation	533	-	533	-
Revenue bonds	-	6,340	6,340	-
Due in more than one year:				
Arbitrage rebate	45	-	45	-
Estimated claims payable	4,629	-	4,629	-
Sales tax payable	783	-	783	386
Bonds payable	-	-	-	17,180
General obligation debt	535,913	-	535,913	-
Landfill closure accrued liabilities	4,722	-	4,722	-
Accrued compensated absences	22,124	1,548	23,672	-
Capital lease obligation	1,727	-	1,727	-
Revenue bonds	-	74,504	74,504	-
Total Liabilities	633,155	97,223	730,378	19,145
NET ASSETS				
Invested in capital assets, net of related debt	510,287	409,452	919,739	2,012
Restricted for debt service	20,639	9,273	29,912	11,449
Restricted for use of impact fees	5,155	-	5,155	-
Unrestricted	67,341	21,519	88,860	23,027
Total Net Assets	$ 603,422	$ 440,244	$ 1,043,666	$ 36,488

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, 2006
(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	$ 31,812	$ 21,668	$ 234	$ -
Public safety	102,363	8,206	1,984	-
Public works	66,019	3,025	877	7,512
Public health	1,697	71	12	-
Parks and recreation	27,761	8,558	-	70,171
Public welfare	9,408	-	10,739	-
Convention and event services	5,094	2,656	-	-
Interest and fiscal charges	24,923	-	-	-
Total Governmental Activities	269,077	44,184	13,846	77,683
Business-Type Activities:				
Water and sewer	74,516	102,745	-	5,529
Total Business-Type Activities	74,516	102,745	-	5,529
Total Primary Government	$ 343,593	$ 146,929	$ 13,846	$ 83,212
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 3,015	$ 2,583	$ -	$ -
Arlington Housing Authority	22,712	-	27,282	-
Arlington Convention and Visitors Bureau	2,960	2,384	415	-
Arlington Housing Finance Authority	-	-	1	-
Total Component Units	$ 28,687	$ 4,967	$ 27,698	$ -

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

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
$ (9,910)	$ -	$ (9,910)	$ -
(92,173)	-	(92,173)	-
(54,605)	-	(54,605)	-
(1,614)	-	(1,614)	-
50,968	-	50,968	-
1,331	-	1,331	-
(2,438)	-	(2,438)	-
(24,923)	-	(24,923)	-
(133,364)	-	(133,364)	-
-	33,758	33,758	-
	33,758	33,758	-
$ (133,364)	$ 33,758	$ (99,606)	$ -
$ -	$ -	$ -	$ (432)
-	-	-	4,570
-	-	-	(161)
-	-	-	1
$ -	$ -	$ -	$ 3,978
104,425	-	104,425	-
76,483	-	76,483	-
354	-	354	-
1,003	-	1,003	-
95	-	95	-
732	-	732	-
6,135	-	6,135	-
31,140	-	31,140	-
19,513	2,175	21,688	2,056
(293)	126	(167)	(53)
6,489	-	6,489	-
6,432	(6,432)	-	-
252,508	(4,131)	248,377	2,003
119,144	29,627	148,771	5,981
484,278	410,617	894,895	30,507
$ 603,422	$ 440,244	$ 1,043,666	$ 36,488

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 64,903	$ 5,806	$ 46,842	$ 79,907	$ 197,458
Closure/Post-closure restricted cash	4,722	-	-	-	4,722
Investments	-	10,303	199,542	-	209,845
Receivables (net of allowance for uncollectibles)					
Taxes	3,576	393	-	1,174	5,143
Sales taxes	8,082	4,060	-	2,030	14,172
Franchise fees	7,093	-	-	-	7,093
Special assessments	-	-	-	361	361
Accrued interest	1,606	120	1,950	-	3,676
Other	1,612	-	-	1,567	3,179
Due from other funds	3,124	-	-	-	3,124
Due from component units	232	-	-	-	232
Due from other governments	-	-	-	3,561	3,561
Inventory of supplies, at cost	240	-	-	-	240
Prepaid expenditures	5	-	-	179	184
Total Assets	$ 95,195	$ 20,682	$ 248,334	$ 88,779	$ 452,990
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 4,146	$ 43	$ 417	$ 3,574	$ 8,180
Retainage payable	3	-	-	648	651
Due to other funds	-	-	-	3,124	3,124
Due to other governments	-	-	-	24	24
Deferred revenue-					
Taxes	3,221	-	-	-	3,221
Closure/Post-closure trust fund	4,722	-	-	-	4,722
Landfill	8,459	-	-	-	8,459
Gas lease	7,268	-	-	-	7,268
Other	1,262	-	-	4,458	5,720
Total Liabilities	29,081	43	417	11,828	41,369
Fund Balances:					
Reserved for encumbrances	4,463	-	5,469	31,123	41,055
Reserved for debt service	-	20,639	-	-	20,639
Reserved for inventory	240	-	-	-	240
Reserved for prepaids	5	-	-	179	184
Reserved for capital projects	-	-	242,448	37,868	280,316
Reserved for street maintenance	-	-	-	3,899	3,899
Reserved for utility rate case	500	-	-	-	500
Reserved for court technology	-	-	-	29	29
Reserved for court security	-	-	-	111	111
Reserved for juvenile case manager	-	-	-	40	40
Unreserved-					
General fund					
Designated for working capital	15,964	-	-	-	15,964
Designated for subsequent years' expenditures	5,747	-	-	-	5,747
Designated for arbitrage	33	-	-	-	33
Designated for compensated absences	1,280	-	-	-	1,280
Designated for other post employment benefits	1,718	-	-	-	1,718
Designated for landfill lease proceeds	20,573	-	-	-	20,573
Designated for gas lease proceeds	5,020	-	-	-	5,020
Undesignated	10,571	-	-	-	10,571
Special revenue funds					
Designated for working capital	-	-	-	2,045	2,045
Designated for capital maintenance	-	-	-	18	18
Undesignated	-	-	-	1,639	1,639
Total Fund Balances	66,114	20,639	247,917	76,951	411,621
Total Liabilities and Fund Balances	$ 95,195	$ 20,682	$ 248,334	$ 88,779	$ 452,990

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet	$	411,621
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (excluding 11,610 recorded in the internal service funds.)		742,812
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		11,873
Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		27,006
Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds (excluding $11,620 recorded in the internal service funds).		(589,890)
Net assets of governmental activities	$	603,422

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Stadium Venue	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 112,846	$ 60,284	$ -	$ 16,541	$ 189,671
Licenses and permits	5,074	-	-	-	5,074
Utility franchise fees	31,140	-	-	-	31,140
Fines and forfeitures	7,675	-	-	-	7,675
Leases, rents and concessions	13,307	-	-	-	13,307
Service charges	5,198	-	-	14,843	20,041
Interest revenue	3,432	1,660	10,265	3,202	18,559
Net increase (decrease) in fair value of investments	(67)	(38)	(314)	105	(314)
Contributions	-	-	70,171	7,512	77,683
Intergovernmental revenues	-	-	234	13,075	13,309
Other	800	116	-	1,978	2,894
Total Revenues	179,405	62,022	80,356	57,256	379,039
EXPENDITURES					
Current-					
General government	30,495	-	-	344	30,839
Public safety	99,917	-	-	3,855	103,772
Public works	22,123	-	-	14,004	36,127
Public health	1,365	-	-	319	1,684
Public welfare	-	-	-	9,483	9,483
Parks and recreation	14,427	-	-	6,834	21,261
Convention and event services	-	-	-	5,094	5,094
Capital Outlay	-	-	113,518	30,955	144,473
Debt service-					
Principal retirement	-	26,160	-	-	26,160
Interest and fiscal charges	-	25,428	-	-	25,428
Total Expenditures	168,327	51,588	113,518	70,888	404,321
Excess (deficiency) of revenues over (under) expenditures	11,078	10,434	(33,162)	(13,632)	(25,282)
OTHER FINANCING SOURCES (USES)					
Issuance of certificates of obligation	-	-	-	8,780	8,780
Issuance of commercial paper	-	-	-	2,000	2,000
Transfers in	7,062	2,139	12,150	4,912	26,263
Transfers out	(4,083)	(12,150)	-	(4,223)	(20,456)
Total Other Financing Sources and Uses	2,979	(10,011)	12,150	11,469	16,587
Net Change in Fund Balances	14,057	423	(21,012)	(2,163)	(8,695)
Fund Balances, October 1,	52,057	20,216	268,929	79,114	420,316
Fund Balances, September 30	$ 66,114	$ 20,639	$ 247,917	$ 76,951	$ 411,621

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds	$ (8,695)
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.	109,309
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(437)
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.	17,659
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.	(1,375)
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.	2,683
Change in net assets of governmental activities	$ 119,144

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, 2006
(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	$ 112,754	$ 112,754	$ 112,846	$ -	$ 112,846	$ 92
Licenses and permits	4,685	4,685	5,074	-	5,074	389
Utility franchise fees	28,778	28,778	31,140	-	31,140	2,362
Fines and forfeitures	7,665	7,665	7,675	-	7,675	10
Leases, rents and concessions	7,691	7,691	13,307	800	14,107	6,416
Service charges	8,260	8,260	5,198	3,435	8,633	373
Interest revenue	1,777	1,777	3,432	-	3,432	1,655
Other revenue	-	-	800	(800)	-	-
Net increase (decrease) in the fair value of investments	-	-	(67)	67	-	-
Total Revenues	171,610	171,610	179,405	3,502	182,907	11,297
EXPENDITURES						
Current-						
General government	39,559	40,509	30,495	587	31,082	9,427
Public safety	91,765	92,023	99,917	(37)	99,880	(7,857)
Public works	24,809	24,809	22,123	(652)	21,471	3,338
Public health	1,407	1,407	1,365	10	1,375	32
Parks and recreation	14,936	14,936	14,427	(369)	14,058	878
Total Expenditures	172,476	173,684	168,327	(461)	167,866	5,818
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(866)	(2,074)	11,078	3,963	15,041	17,115
OTHER FINANCING SOURCES (USES)						
Transfers in	4,060	4,060	7,062	-	7,062	3,002
Transfers out	(3,160)	(3,160)	(4,083)	-	(4,083)	(923)
Total Other Financing Sources (Uses)	900	900	2,979	-	2,979	2,079
Net Change In Fund Balances	34	(1,174)	14,057	3,963	18,020	19,194
Fund Balances, October 1	21,086	21,086	52,057		52,057	30,971
Fund Balances, September 30	$ 21,120	$ 19,912	$ 66,114	$ 3,963	$ 70,077	$ 50,165

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	
	Water and Sewer	**Governmental Activities- Internal Service Funds**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,183	$ 28,282
Receivables (net of allowances for uncollectibles):		
Trade accounts	6,837	261
Unbilled trade accounts	7,424	-
Other	130	-
Inventory of supplies, at cost	404	85
Subtotal	27,978	28,628
Restricted Assets:		
Bond contingency-		
Investments	10,270	-
Capital construction-		
Investments	41,075	-
Total Current Assets	79,323	28,628
Non-Current Assets:		
Restricted Assets:		
Bond contingency-		
Investments	213	-
Accrued interest	103	-
Capital construction-		
Investments	2,130	-
Assessments receivable	4	-
Meter deposit investments	4,129	-
Capital Assets:		
Land	4,828	-
Buildings and improvements	2,833	467
Water and sewer system	528,277	-
Machinery and equipment	9,889	33,328
Construction-in-progress	76,987	-
Accumulated depreciation	(171,784)	(22,185)
Total Capital Assets Net of Accumulated Depreciation	451,030	11,610
Total Noncurrent Assets	457,609	11,610
Total Assets	$ 536,932	$ 40,238

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, 2006
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	Governmental Activities- Internal Service Funds
	Water and Sewer	
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 4,465	$ 1,077
Accrued compensated absences- Current	112	12
Revenue bonds payable from unrestricted assets	6,340	-
Capital lease obligation	-	215
Current Liabilities Payable From Restricted Assets:		
Accounts payable and accrued liabilities	973	-
Retainage	769	-
Accrued interest	1,210	-
Estimated claims payable	-	5,815
Revenue bonds payable	3,170	-
Meter deposits	4,132	-
Total Current Liabilities	21,171	7,119
Noncurrent Liabilities:		
Estimated claims payable	-	4,629
Compensated absences	1,548	176
Revenue bonds payable from unrestricted assets	74,504	-
Capital lease obligation	-	773
Total Noncurrent Liabilities	76,052	5,578
Total Liabilities	97,223	12,697
NET ASSETS		
Invested in capital assets, net of related debt	387,534	10,573
Restricted for debt service	9,273	-
Unrestricted	42,902	16,968
Total Net Assets	$ 439,709	$ 27,541
Reconciliation to government-wide statements of net assets:		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	535	
Net assets of business-type activities	$ 440,244	

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

(continued)

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds	
	Water and Sewer	Governmental Activities-Internal Service Funds
Operating Revenues:		
Water sales	$ 58,571	$ -
Sewer service	38,052	-
Service charges	-	34,660
Sundry	6,122	333
Total Operating Revenues	102,745	34,993
Operating Expenses:		
Purchase of water	13,738	-
Purchase of sewage treatment	18,179	-
Salaries and wages	11,398	1,502
Employees' retirement	1,448	210
Supplies	2,937	3,770
Maintenance and repairs	2,764	2,264
Utilities	3,831	616
Claims	-	19,674
Legal and professional	-	494
Franchise fees	5,007	-
Depreciation	10,378	2,946
Miscellaneous services	3,869	2,573
Total Operating Expenses	73,549	34,049
Operating Income	29,196	944
Nonoperating Revenues (Expenses):		
Interest revenue	2,175	1,047
Net increase in the fair value of investments	126	21
Gain on sale of assets	-	188
Interest expense and fiscal charges	(1,097)	(13)
Total Nonoperating Revenues (Expenses)	1,204	1,243
Income before transfers and contributions	30,400	2,187
Contributions in aid of construction	5,529	-
Transfers in	-	2,925
Transfers out	(6,432)	(2,300)
Change in Net Assets	29,497	2,812
Total Net Assets, October 1	410,212	24,729
Total Net Assets, September 30	$ 439,709	$ 27,541

Net change in net assets - total proprietary funds	$ 29,497
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	130
Change in net assets of business-type activities	$ 29,627

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds	
	Water and Sewer	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 101,905	$ 35,157
Cash payments to suppliers	(47,974)	(30,318)
Cash payments to employees	(12,949)	(1,764)
Net Cash Provided By Operating Activities	40,982	3,075
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	-	2,925
Transfers out	(6,432)	(2,300)
Net Cash Provided By (Used For) Noncapital Financing Activities	(6,432)	625
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(19,569)	(2,324)
Principal payments on capital lease	-	(108)
Interest payments on capital lease	-	(13)
Proceeds from sales of capital assets	-	255
Repayment of long-term debt	(10,280)	-
Interest payment long-term debt	(4,312)	-
Net Cash Provided By (Used For) Capital And Related Financing Activities	(34,161)	(2,190)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from interest earnings	2,876	1,047
Net increase (decrease) in the fair value of investments	126	21
Purchase of investments	(88,028)	(5,444)
Maturities/sales of investments	85,294	7,873
Net Cash Provided By (Used In) Investing Activities	268	3,497
Net Increase (Decrease) In Cash And Cash Equivalents	657	5,007
Cash And Cash Equivalents, October 1	12,526	23,275
Cash And Cash Equivalents, September 30	$ 13,183	$ 28,282
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	$ 29,196	$ 944
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,378	2,946
Gain on sale of assets	-	255
Interest earnings capitalized	(756)	-
Interest expense capitalized	2,965	-
Amortization of bond premium	(57)	-
Amortization of deferred loss on bond refunding	88	
Provision for bad debts	195	-
(Increase) decrease in-		
Receivables	(840)	(91)
Inventory of supplies	28	(4)
Increase (decrease) in-		
Accounts payable and accrued liabilities	(111)	152
Estimated claims payable	-	(1,075)
Retainage payable	(348)	-
Meter deposits	136	-
Accrued compensated absences	108	(52)
Total adjustments	11,786	2,131
Net Cash Provided By Operating Activities	$ 40,982	$ 3,075
Noncash investing, capital, and financing activities:		
Contributions of capital assets from developers	5,529	-

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 14,781
Investments		
Money market fund	16,799	-
U. S. Government bonds	180	-
Corporate bonds	360	-
Fixed income mutual bond funds	7,024	-
Common stock mutual bond funds	50,459	285
Balanced mutual funds	10,377	-
Self directed brokerage accounts	5,318	-
Total Investments	90,517	285
Total Assets	90,517	15,066
LIABILITIES		
Accounts payable and accrued liabilities	-	14,781
IRC 401 deferred compensation plans	-	285
Total Liabilities	-	15,066
NET ASSETS		
Held in trust for pension benefits	$ 90,517	

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, 2006
(AMOUNTS EXPRESSED IN THOUSANDS)

		Pension Trust Funds
ADDITIONS		
Employer contributions	$	2,193
Employee contributions		4,443
Net appreciation in fair value of investments		4,938
Total Additions		11,574
DEDUCTIONS		
Benefits		10,512
Plan administration		40
Total Deductions		10,552
Increase in Net Assets		1,022
Net Assets, October 1		89,495
Net Assets, September 30	$	90,517

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

CITY OF ARLINGTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Arlington, Texas (the "City") was incorporated April 19, 1884 and the city charter was adopted January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, 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 Arlington Property Finance Authority, Inc. (the"APFA"), a component unit, have been "blended" with those of the City because its board of directors is appointed by the City Council, and the City management maintains significant continuing management oversight with respect to APFA's policies. Additionally, the APFA provides services entirely to the City and its 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 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. <u>Measurement Focus and Basis of Accounting</u>

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

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

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

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

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

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

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

3. Other Fund Types:

The City additionally reports for the following Fund types:

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

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

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

E. Cash, Cash Equivalents and Investments

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

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

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

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

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

F. Inventories and Prepaid Items

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

G. Capital Assets

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

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

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

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

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2006, approximately $2,209,000 of interest costs, net of $756,000 of interest earned, were capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Interest expensed (net of capitalized interest) and interest earned in fiscal 2006 for the Water and Sewer Fund amounted to approximately $1,097,000 and $2,175,000, respectively.

I. Arbitrage Liability

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

J. Compensated Absences

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

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

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

K. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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.

M. New Accounting Pronouncements

During fiscal year 2006, the City adopted the following Governmental Accounting Standards Board ("GASB") Statements:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement required that the City report the effects of capital asset impairments in the financial statements when impairments that are determined to be other than temporary occur. There were no impairments during 2006.

Statement No. 46, *Net Assets Restricted by Legislation, an Amendment of GASB 34.* This statement clarifies the definition set forth by GASB 34 as it relates to "restricted net assets" in the financial statements. The restrictions are legally enforceable and mandated by parties external to the government (citizens, judiciary.)

Statement No. 47 ("GASB 47"), *Accounting for Termination Benefits*. This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB 45 (see below) and (2) for other termination benefits, which was effective for the City in fiscal year 2006. This statement defines the accounting for voluntary and involuntary termination benefits. During fiscal year 2006 there was no effect from implementation of this statement.

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

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* effective in fiscal year 2008, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures, related liabilities and note disclosures in the financial statements.

Statement No. 47, *Accounting for Termination Benefits.* This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB 45 and (2) for other termination benefits, the effective date was fiscal 2006. This statement defines the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives). For voluntary termination benefits, an accrual of these costs is warranted when the termination terms have been accepted by the employee and the costs can be estimated. For involuntary termination occurrences, the liability should be recorded when the termination costs, such as severance, can be estimated and a plan for involuntary termination has been approved by the City. The plan for involuntary termination should include the number and classes of employees affected, employee location, date of proposed termination, and types of benefits that are expected to be paid to terminated employees.

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

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

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 $589,890,000 difference are as follows (amounts in thousands):

Bonds payable	$550,685
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(4,196)
Commercial paper payable	2,000
Premium general obligation debt	12,661
Deferred loss refunding	(3,018)
Accrued interest payable	1,548
Arbitrage rebate	45
Sales tax payable	932
Landfill closure	4,722
Compensated absences	23,239
Capital leases	1,272
Net adjustment to reduce fund balance - total governmental funds To arrive at net assets - governmental activities	$589,890

Another element of that reconciliation explains the "other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds". The details of this $11,873,000 difference are as follows (amounts in thousands):

	Deferred & Unearned	Unearned
Taxes	$ 3,221	$ -
Closure/Post-closure	4,722	-
Landfill	8,459	8,459
Gas lease	7,268	7,268
Grant revenue	3,478	1,790
Other	2,242	-
	$29,390	$ 17,517

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 $109,309,000 difference are as follows (amounts in thousands):

Capital outlay	$143,546
Capital maintenance expense	1,382
Depreciation expense	(35,619)
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	$109,309

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 $17,659,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	($8,780)
Issuance of commercial paper	(2,000)
Less: issuance cost	1,323
Amortization of deferred loss on bond refunding	(544)
Principal repayments:	
General obligation debt	26,160
Capital lease	438
Amortization of bond premium	1,062
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	($ 17,659)

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 $1,375,000 difference are as follows (amounts in thousands):

Compensated absences	($ 1,354)
Arbitrage	(33)
Accrued interest expense	102
Amortization of issuance cost	(239)
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	($ 1,375)

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 fund level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2006, the City Council approved budgetary expenditure amendments for the General Fund in the amount of $1,208,000. These additional expenditures were to fund electricity costs, an additional police academy class and three studies. These studies include an IT Management Study, the Disparity Study related to minority contract participation, and a Rush Creek Drainage Study. The Street Maintenance Fund appropriations were increased by $1,932,689 in order to bring budgeted expenditures in line with actual and estimated revenues. The Convention and Events Services fund appropriations were increased by $100,000 for enhancing the arts and $50,000 for the Arlington Downtown Management Corporation. The increase in appropriations will be offset by the increased performance in hotel occupancy tax revenue.

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

B. 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, 2006, the Federal Transit fund deficit of $337,000, the Texas Department of Transportation fund deficit of $385,000, the Home Investment Partnership fund deficit of $114,000, the Disaster Assistance fund deficit of $52,000, and the FEMA fund deficit of $1,655,000 will be funded by Federal and State Grants, reimbursements from which will replenish the fund balance in the following fiscal year. Included in Other Special Revenue are the following with fund deficits: the Texas Department of Aviation fund deficit of $5,000, the North Texas Council of Governments fund deficit of $11,000, and the Auto Theft fund deficit of $6,000. These fund balances will also be replenished in the following fiscal year from reimbursements funded by Federal and State Grants.

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, 2006. At year-end, the carrying amount of the City's demand deposits (excluding Component Units) was $15,252,632 (bank balance, $1,223,227). The City’s bank balance (excluding Component Units) was covered by collateral with a fair value of $10,019,727. 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. The balance in cash on hand was $77,000 at year end.

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, 2006, the City had the following investments listed by investment policy fund groups:

Fund	Fair Value	Weighted average Maturity (in days)
General Operating/Internal Pool	$240,847,076	165
Cowboy Stadium Complex Project	237,398,756	252
Debt Service and Working Capital Reserve	6,183,813	513
Cowboy Stadium Complex Debt Service Reserve	12,272,103	286
Self-Insurance	2,115,877	31
Total Investments	**$498,817,625**	

As of September 30, 2006, the Component Units of the City had the following investments listed by investment policy fund groups:

Fund	Fair Value	Weighted average Maturity (in days)
Debt Service Sinking	$11,254,479	760

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

As of September 30, 2006, the fiduciary funds of the City had the following investments listed by investment policy fund groups (amounts in thousands):

Fund	Fair Value	Weighted average Maturity (in days)
Pension Trust Funds	$ 90,517	n/a
Agency Funds	15,066	n/a
Total Investments	**$ 105,583**	

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. All securities are AAA rated. As of September 30, 2006, the City's portfolio was invested as follows:

Issuer	Book	% of Portfolio
FFCB	$ 5,070,037	1.01%
FHLB	57,802,123	11.55%
FHLMC	91,036,473	18.19%
FNMA	59,200,981	11.83%
Fidelity/ Wells Fargo MMA	39,393,808	7.87%
Texpool	36,970,075	7.38%
US Treasury	211,103,862	42.17%
Totals	**$ 500,577,359**	**100.00%**

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, 2005, upon which the original FY06 levy was based, was $16,143,410,000.

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, 2006, the City had a tax rate of $0.6480 ($0.4244 for general government and $0.2236 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 $298,279,782 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $16,143,410,000.

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, 2006 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 Funds	Total
Receivables:						
Taxes	$ 9,502	$ 393	$ -	$ -	$1,174	$11,069
Trade Accounts	7,093	-	-	9,099	-	16,192
Unbilled Trade Accounts	-	-	-	7,424	-	7,424
Special Assessments	-	-	-	-	361	361
Sales Taxes	8,082	4,060	-	-	2,030	14,172
Accrued Interest	1,606	120	1,950	-	-	3,676
Other	1,612	-	-	130	1,593	3,335
Gross Receivables	27,895	4,573	1,950	16,653	5,158	56,229
Less: Allowance for Uncollectibles	(5,926)	-	-	(2,262)	(26)	(8,214)
Net total receivables	$21,969	$4,573	$1,950	$14,391	$5,132	$48,015

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 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	$ 80,600	$ -	$ -	$ 80,600
Construction in progress-other	118,453	32,015	(46,570)	103,898
Construction in progress-stadium	31,069	113,494	(3,558)	141,005
Total capital assets, not being depreciated	230,122	145,509	(50,128)	325,503
Capital assets, being depreciated:				
Buildings	121,501	13,293	-	134,794
Improvements other than buildings	55,584	-	-	55,584
Equipment	46,525	6,843	(3,043)	50,325
Infrastructure	729,648	31,072	-	760,720
Total capital assets, being depreciated	953,258	51,208	(3,043)	1,001,423
Less accumulated depreciation for:				
Buildings	44,403	5,138	-	49,541
Improvements other than buildings	18,936	-	-	18,936
Equipment	30,333	5,074	(2,727)	32,680
Infrastructure	442,994	28,353	-	471,347
Total accumulated depreciation	536,666	38,565	(2,727)	572,504
Total capital assets, being depreciated, net	416,592	12,643	(316)	428,919
Governmental activities capital assets, net	$646,714	$158,152	($50,444)	$754,422

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 4,828	$ -	$ -	$ 4,828
Construction in progress	76,520	19,359	(18,892)	76,987
Total capital assets, not being depreciated	81,348	19,359	(18,892)	81,815
Capital assets, being depreciated:				
Buildings and improvements	2,833	-	-	2,833
Water and sewer system	503,723	24,554	-	528,277
Machinery and equipment	9,827	62	-	9,889
Total capital assets, being depreciated	516,383	24,616	-	540,999
Less accumulated depreciation for:				
Buildings and improvements	911	53	-	964
Water and sewer system	151,063	10,155	-	161,218
Machinery and equipment	9,432	170	-	9,602
Total accumulated depreciation	161,406	10,378	-	171,784
Total capital assets, being depreciated, net	354,977	14,238	-	369,215
Business-type activities capital assets, net	$436,325	$33,597	($18,892)	$451,030

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

Governmental activities:	
General Government	$ 2,703
Public Safety	652
Parks and recreation	3,012
Public works	29,246
Public health	6
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,946
Total depreciation expense – governmental activities	$38,565
Business-type activities:	
Water and sewer	$ 10,378
Total depreciation expense – business-type activities	$ 10,378

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	1,260	109	-	1,369
Total accumulated depreciation	1,260	109	-	1,369
Total capital assets, being depreciated, net	1,479	(109)	-	1,370
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$1,479	($109)	$ -	$1,370

	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	$ 678	$ 34	$ 40	$672
Total capital assets, not being depreciated	678	34	40	672
Less accumulated depreciation for:				
Machinery and equipment	242	30	46	226
Total accumulated depreciation	242	30	46	226
Total capital assets, being depreciated, net	436	4	(6)	446
Arlington Housing Authority, Inc. activities capital assets, net	$ 436	$ 4	$ (6)	$446

	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	$378	$ 125	$ -	$503
Total capital assets, not being depreciated	378	125	-	503
Less accumulated depreciation for:				
Machinery and equipment	247	39	-	286
Total accumulated depreciation	247	39	-	286
Total capital assets, being depreciated, net	131	86	-	217
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$131	$86	$ -	$217

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 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 4/1/06):

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

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

For 2006, the City's annual pension cost of $14,512,396 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/04	$13,955,035	100.00%	-
9/30/05	$14,671,901	100.00%	-
9/30/06	$14,512,396	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 savings are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2006, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $88,825,000.

The City's total payroll during fiscal 2006 was $124,238,000. The current year contribution was calculated based on a covered payroll of $71,153,000, resulting in a required and actual employer contribution of $1,778,000 and actual employee contributions of $4,360,000. The employer contribution represents 2.5 percent of the covered payroll. The employee contribution represents approximately 6.1 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2006. There were no related-party transactions. The Thrift Plan does not issue separate stand-alone financial statements.

Part-Time Deferred Income Trust

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

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.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/04	$75,000	100.00%	-
9/30/05	$87,000	100.00%	-
9/30/06	$67,000	100.00%	-

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

IRC 457 Deferred Compensation Plans

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by the International City Management Associations Retirement Corporation (the "ICMA"). In addition, the City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is also administered by the ICMA. 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 other post-employment benefit disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund. 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. No liability has been recorded for any difference between actual contributions and annual required contributions determined by the actuary. This will be done upon implementation of Government Accounting Standards Board Statement No. 45.

The following table discloses three-year historical trend information relating to the Disability Income Plan.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/04	$309,000	100.00%	-
9/30/05	$288,000	100.00%	-
9/30/06	$348,000	100.00%	-

City contributions for the above plans for the year ended September 30, 2006, are as follows (amounts in thousands):

TMRS	$14,512
THRIFT	1,778
PTDIT	67
DIP	348
	$16,705

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	$1,340	$88,825	$352	$90,517
Total Assets	$1,340	$88,825	$352	$90,517
NET ASSETS, Held in Trust For Pension Benefits	$1,340	$88,825	$352	$90,517

	Statement of Changes in Net Assets			
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ADDITIONS				
Employer contributions	$ 67	$ 1,778	$348	$ 2,193
Employee contributions	82	4,361	-	4,443
Net appreciation in fair value of investments	64	4,857	17	4,938
Total Additions	$ 213	$10,996	$365	$11,574
DEDUCTIONS				
Benefits	85	10,143	284	10,512
Plan administration	17	6	17	40
Total Deductions	102	10,149	301	10,552
Increase in Net Assets	111	847	64	1,022
NET ASSETS, October 1	1,229	87,978	288	89,495
NET ASSETS, September 30	$1,340	$88,825	$352	$90,517

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, 510 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 three 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 $2,298,584 were recognized for postretirement health care.

6. DEBT AND LIABILITES

General Short-Term Debt

During fiscal 2005, the City authorized a $30,000,000 commercial paper program for interim funding of general obligation debt. During fiscal year 2006 the City issued $2,000,000 of commercial paper with interest rates ranging from 3.55 percent to 3.65 percent. This debt will mature on November 15, 2006.

General short-term debt balances and transactions for the year ended September 30, 2006 are as follows (amounts in thousands):

	Balance, October 1, 2005	Additions	Retirements and Other	Balance, September 30, 2006
Commercial Paper	$ -	$2,000	$ -	$2,000

General Long-Term Debt

The City issued $8,780,000 of Combination Tax and Revenue Certificates of Obligation, Series 2006, during FY 2006 at an effective interest rate of 4.48 percent, with all issuances scheduled to mature serially from 2007 to 2026. 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, 2006, this liability is reported at $932,082 in the governmental activities and $460,542 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.

General long-term and special obligation debt balances and transactions and other long term obligations for the year ended September 30, 2006 are as follows (amounts in thousands):

	Balance, October 1, 2005	Additions	Retirements and Other	Balance, September 30, 2006	Due Within One Year
General obligation debt (1)	$249,895	$ -	($23,135)	$226,760	$20,885
Special tax revenue debt (2)	297,990	-	-	297,990	-
Certificates of obligation (1)	20,180	8,780	(3,025)	25,935	3,530
Premium on general bonds	6,481	-	(685)	5,796	-
Premium on special bonds	7,242	-	(377)	6,865	-
Deferred loss on refunding	(3,562)	-	544	(3,018)	-
Accrued compensated absences	22,125	2,467	(1,165)	23,427	1,303
Capital lease obligation	2,175	631	(546)	2,260	533
Arbitrage rebate	12	33	-	45	-
Claims payable	11,519	4,618	(5,693)	10,444	5,815
Landfill Closure Liability	4,330	392	-	4,722	-
Sales tax payable	1,081	-	(149)	932	149
Total	$619,468	$16,921	($34,231)	$602,158	$32,195

(1) The general obligation debt of $252,695 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 2026, 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, 2006 are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 24,415	$ 12,142	$ 36,557
2008	23,400	10,968	34,368
2009	21,510	9,822	31,332
2010	20,160	8,794	28,954
2011	20,160	7,852	28,012
2012-2016	86,230	25,570	111,800
2017-2021	47,385	8,174	55,559
2022-2026	9,435	871	10,306
	$252,695	$84,193	$336,888

General obligation debt authorized and unissued as of September 30, 2006, amounted to $114,245,000.

(2) The special obligation debt of $297,990 consists of tax exempt special tax bonds and taxable special tax and revenue bonds. The bonds, together with excess funds and interest, provided for the City's share of project costs for the Cowboy's Stadium. 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, 2006, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
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	7,415	12,033	19,448
2012-2016	40,005	55,421	95,426
2017-2021	11,995	48,160	60,155
2022-2026	-	47,243	47,243
2027-2031	14,880	47,243	62,123
2032-2035	213,515	29,193	242,708
	$297,990	$288,680	$586,670

Debt of the Enterprise Funds

The City did not issue Water and Wastewater System Revenue Bonds during fiscal year 2006

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, 2006, are as follows (amounts in thousands):

	Balance, October 1, 2005	Additions	Retirements and Other	Balance, September 30, 2006	Due Within One Year
Waterworks and Sewer System-					
Revenue bonds	$94,790	$ -	($10,280)	$84,510	$9,510
Deferred loss on refunding	(584)	-	88	(496)	-
Compensated Absences	1,552	108	-	1,660	112
Total	$95,758	$ 108	($10,192)	$85,674	$9,622

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, 2006, 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
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	6,295	2,411	8,706
2012-2016	26,100	8,251	34,351
2017-2021	17,390	3,141	20,531
2022-2024	4,250	337	4,587
	$84,510	$26,657	$111,167

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, 2006, $17,179,900 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Texas Rangers sports facility.

The principal and interest requirement of the above special obligation debt at September 30, 2006, is as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2008	$17,180	$ -	$17,180

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, 2006, previously defeased debt still outstanding amounted to $71,740,000.

8. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2006, is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$3,124	$ -
Nonmajor Funds	-	3,124
	$3,124	$3,124

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2007.

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

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 4,083	$ 7,062
Debt Service Fund	12,150	2,139
Stadium Venue Fund	-	12,150
Total Major Governmental Funds	16,233	21,351
Water and Sewer Fund	6,432	-
Nonmajor Funds	4,223	4,912
Internal Service Funds	2,300	2,925
Total All Funds	$29,188	$29,188

The combined Water and Sewer, Convention and Event Services and Arlington Property Finance Authority transferred $4,060,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred $3,160,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses.

The Debt Service Fund transferred $12,150,000 in revenue not required for debt service to the Stadium Venue Fund for construction.

The Debt Service Fund received budgeted transfers of $2,255,000 from the Convention and Event Services, Water and Sewer and Park Performance Funds to cover debt service repayments.

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 $4,722,000 reported as a landfill closure and post-closure accrued liability at September 30, 2006, represents the cumulative amount reported to date based on the use of approximately 59 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 $3,300,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2006. The City expects to close the landfill in 2028. Actual costs may change due to inflation, changes in technology, or changes in regulations.

On March 18, 2005, the City entered into a contract with Republic Waste Services of Texas, Ltd. (Republic) for a 20 year renewable operating lease of the landfill. The City received an initial payment of $15 million, $6 million of which was for the purchase of the City's dirt inventory. The remaining $9 million was recorded as deferred revenue and will be amortized over the life of the lease. Republic is responsible for the funding of monthly contributions to a trust account that will pay closure and post-closure costs as required by state and federal laws and regulations. Republic is in compliance with these requirements and at September 30, 2006, 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, 2006. The projects include street construction, park construction, police construction, traffic construction, and the construction of water and sewer facilities. At year-end the City's commitments with contractors are as follows (amounts in thousands):

Project	Spent-to-Date	Remaining Commitment
Street Construction	$ 35,014	$ 18,473
Park Construction	18,109	224
Police Construction	13,868	474
Traffic Construction	5,307	765
Water and Sewer Construction	76,987	4,632
Stadium Venue	141,006	5,469
	$290,291	$30,037

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

Litigation

The City is currently involved in an employment lawsuit in wherein the plaintiff alleges that his termination violated the Family Medical Leave Act and the case was tried to a jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case was appealed and remanded by the 5th Circuit. The case is currently before the trial court on issues of damages and the effect of the plaintiff's failure to disclose the judgment in a bankruptcy he filed during the appeal. The bankruptcy trustee now owns the Judgment and it is anticipated that a settlement will be negotiated with the bankruptcy trustee in an amount not to exceed $250,000. However, if a settlement is not reached with the trustee, it is anticipated that damages awarded by the trial court will not exceed $800,000. The City will continue to vigorously defend if settlement is unsuccessful.

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.

A motion to dismiss is pending. 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 ™ 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, 2006, 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	$(192,122)	9/1/2016	(Aa2/AA/AA)
Series 2005B	82,132,500	9/1/2005	3.719%	BMA	(191,939)	9/1/2016	(Aa2/AA/AA)
					(384,061)		

Fair value. The Swaps had a negative fair value as of September 30, 2006 of ($384,060). 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, 2006, 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, 2006, 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, 2006, 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 Complex Special Obligations, Series 2005B

Fiscal Year Ended September 30	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ -	$ 6,242,070	($133,055)	$ 6,109,015
2008	-	6,242,070	(133,055)	6,109,015
2009	-	6,242,070	(133,055)	6,109,015
2010	-	6,242,070	(133,055)	6,109,015
2011	-	6,242,070	(133,055)	6,109,015
2012-2016	-	31,210,350	(534,606)	30,675,744
2017-2021	-	31,210,350	-	31,210,350
2022-2026	-	31,210,350	-	31,210,350
2027-2031	-	31,210,350	-	31,210,350
2032-2035	164,265,000	24,188,021	-	188,453,021
Total	$ 164,265,000	$ 180,239,771	($1,199,881)	$ 343,304,890

11. DALLAS COWBOYS COMPLEX DEVLEOPMENT PROJECT

In November of 2004, the voters authorized the City to provide the planning, acquisition, construction and financing for the Dallas Cowboys Complex Development Project (Complex), approving an increase in the City's sales tax of ½ cent, a two percent increase in the hotel occupancy tax and a five percent short-term motor vehicle rental tax. The Complex will be a multi-functional enclosed facility with a retractable roof and seating for approximately 80,000. In accordance with the funding and closing agreement, the City of Arlington will pay half, up to $325 million, to build the Complex. The Complex is anticipated to be completed by the summer of 2009.

Stadium Lease- As part of the closing agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (tenant) for lease of the Complex. The lease calls for an initial term of 30 years, after the new stadium opens, at a rental rate of $2,000,000 per year. The lease contains several renewal options at guaranteed annual rental payments of $1,000,000 per year for the first 10-year option and $1,250,000 per year for all remaining renewals. The lease also provides the tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the tenant, capped at $500,000 per year. The lease is accounted for as an operating lease.

City Debt- On July 15, 2005 the City issued $297,990,000 Dallas Cowboy Complex Special Obligations pledging the ½ cent sales tax, two percent 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.

Conduit Debt- On July 11, 2006, $147,865,000 of Dallas Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a $3 parking tax for events held at the Cowboys Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P. The proceeds of this bond sale, along with interest earnings, will provide a portion of the Cowboy's funding for the complex, as well as capitalized interest, a reserve, and various costs of issuance and insurance. The bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt.

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

12. RISK MANAGEMENT

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

<u>Arlington Property Finance Authority (APFA)</u>

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.

For fiscal year 2006, a $1,384,000 transfer was made from the Worker's Compensation fund to provide for an ending fund balance equal to one year ultimate loss estimate which will protect against unexpected fluctuations in cost or reserve needs. The City will continue to make annual transfers in future years from the General Fund and the Water Fund based on actuarial projections of Ultimate Losses. 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 4.0 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $3,338,000 at September 30, 2006.

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 4.0 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $4,406,000 at September 30, 2006.

Group Health

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

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately $2,700,000 at September 30, 2006.

Changes in the balances of claims liabilities during fiscal 2006 and 2005 were as follows (amounts in thousands):

Fiscal 2006	October 1	Claims and Changes in Estimates	Claim Payments	September 30
APFA	$ 2,559	$ 2,093	$ (1,314)	$ 3,338
Workers' Compensation	6,034	(1,039)	(589)	4,406
Group Health	2,926	17,545	(17,771)	2,700
	$11,519	$18,599	($19,674)	$10,444
Fiscal 2005				
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

13. 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 $2,260 and is reported as capital lease obligations current liabilities ($533) and capital lease obligations non-current liabilities ($1,727) 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, 2006	Rental Payments
2007	$ 661
2008	686
2009	653
2010	298
2011-12	178
Total minimum future lease payments	2,476
Less: Amount representing interest	(216)
Present value of net minimum lease payments	$2,260

The City's investment in equipment under capital lease arrangements as of September 30, 2006 is $3,092,000.

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, 2006, amounted to $301.

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

Year ending September 30	Rental Payments	Governmental Activities	Business-type Activities
2007	$64	$64	$0
2008	2	2	0
	$66	$66	$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 2006 were approximately $244,000.

14. 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
2006	$ 800,000
2007	800,000
2008	800,000
2009	800,000
2010	900,000
2011to 2015	5,000,000
2016 to 2020	5,000,000
2021 to 2024	4,000,000
	18,100,000
Less Discount	6,872,000
	$11,228,000

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.

15. 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, 2006 the lease receivable balance was $18,909,715.

Minimum future rentals are as follows:

September 30	
2007	$ 2,000,000
2008	2,000,000
2009	2,000,000
2010	2,000,000
2011	2,000,000
2012-2016	10,000,000
2017-2021	10,000,000
2022-2023	5,055,556
	35,055,556
Less Discount	16,145,841
Minimum future lease rentals	$18,909,715

16. 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, 2006, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc.	Housing Authority	Nonmajor Discretely Presented Component Units	Total Discretely Presented Component Units
Current and other assets	$42,749	$10,249	$602	$53,600
Capital assets	1,370	446	217	2,033
Total assets	44,119	10,695	819	55,633
Long-term liabilities outstanding	17,566	-	-	17,566
Other liabilities	516	871	192	1,579
Total liabilities	18,082	871	192	19,145
Net assets:				
Invested in capital assets, net of related debt	1,370	446	196	2,012
Restricted	11,449	-	-	11,449
Unrestricted	13,218	9,378	431	23,027
Total net assets	$26,037	$9,824	$627	$36,488

Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc.	Housing Authority	Nonmajor Discretely Presented Component Units	Total Discretely Presented Component Units
Expenses	$ 3,015	$22,712	$2,960	$28,687
Program Revenues:				
Charges for services	2,583	-	2,384	4,967
Operating grants and contributions	-	27,282	416	27,698
Net Program (Expense) Revenue	(432)	4,575	(160)	3,978
Interest Revenues	1,948	80	28	2,056
Other NonTax General Revenues	(40)	(13)	-	(53)
Change in Net Assets	1,476	4,637	(132)	5,981
Net Assets, October 1, as restated	24,561	5,187	759	30,507
Net Assets, September 30	$26,037	$ 9,824	$ 627	$36,488

In fiscal year 2005, Arlington Housing Authority's (AHA) revenues in excess of related housing assistance payment (HAP) expenses were initially recorded as a payable to HUD. During 2006, additional guidance was provided by HUD indicating that such amounts should be included in the unreserved net assets account to allow the funds to be available for future HAP expenses. The reduction of revenue recorded during 2005 was adjusted by increasing the beginning fund balances for 2006.

Arlington Housing Authority beginning net assets as previously stated	$3,244
Adjustment	1,943
Arlington Housing Authority beginning net assets, as restated	$5,187

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Unit Credit	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/03	$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%
12/31/05	334,823	447,440	112,617	74.8%	113,823	98.9%

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - PART-TIME DEFERRED INCOME TRUST
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 FUNDING PROGRESS - 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 (amounts expressed in thousands, except for percentages):

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

[FORM OF BOND COUNSEL OPINION]

[CLOSING DATE]

$24,000,000
CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM REVENUE BONDS
SERIES 2007

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

> CITY OF ARLINGTON, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2007, dated July 15, 2007.
>
> The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

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

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

Vinson & Elkins LLP Attorneys at Law Austin Beijing Dallas Dubai Houston London Moscow New York Tokyo Washington

Trammell Crow Center, 2001 Ross Avenue, Suite 3700
Dallas, Texas 75201-2975 **Tel** 214.220.7700 **Fax** 214.220.7716
www.velaw.com

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

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

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

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

IT IS OUR FURTHER OPINION THAT:

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

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

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

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

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

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

Appendix D

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. 499770

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to Wells Fargo Bank, N.A. or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

$24,000,000
City of Arlington, Texas Water and Wastewater System Revenue Bonds

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

STD-TX-7
01/05

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ARLINGTON