OFFICIAL STATEMENT DATED MARCH 1, 2012

NEW ISSUE – BOOK-ENTRY-ONLY **RATINGS: See "RATINGS" herein.**

In the opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain restrictions, conditions and requirements by the City, as mentioned under "TAX EXEMPTION" herein, interest income on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of tax preference to be included in computing the alternative minimum tax of individuals or corporations; however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain corporations, which income is subject to the federal alternative minimum tax. See "TAX EXEMPTION" and "BOND PREMIUM" and herein.

CITY OF MESA, ARIZONA
$36,090,000
STREET AND HIGHWAY USER REVENUE REFUNDING BONDS, SERIES 2012

Dated: Date of Delivery *Due*: July 1, as shown below

The City of Mesa, Arizona (the "City") Street and Highway User Revenue Refunding Bonds, Series 2012 (the "Bonds") will be initially issued in book-entry-only form in the name of Cede & Co., as nominee of The Depository Trust Company, a registered securities depository ("DTC"). Beneficial interests in the Bonds will be offered for sale in $5,000 denominations and integral multiples thereof. The Bonds are being issued to provide funds to (i) refund in advance of maturity the Bonds Being Refunded (as defined herein) and (ii) pay costs of issuance of the Bonds.

Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2012, until maturity. Principal of the Bonds will be payable in accordance with the maturity schedule set forth below. So long as the Bonds are in book-entry-only form, principal of and interest on the Bonds will be paid to DTC for credit to the accounts of the DTC participants and, in turn, to the accounts of the owners of beneficial interests in the Bonds (the "Beneficial Owners"). See APPENDIX D — "Book-Entry-Only System."

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2014	$6,175,000	4.00%	0.62%
2015	3,885,000	4.00	0.95
2016	3,190,000	5.00	1.12
2017	2,175,000	5.00	1.33
2019	665,000	3.00	2.02
2020	905,000	4.00	2.29
2021	9,395,000	5.00	2.52
2022	9,700,000	5.00	2.67

The Bonds are not subject to redemption prior to their stated maturity dates.

The Bonds are limited obligations of the City payable solely from taxes, fees, charges and other monies collected by the State of Arizona and distributed to the City for street and highway purposes pursuant to law. See "HIGHWAY USER TAX REVENUES" herein. The pledge of such amounts to the payment of the Bonds, together with other bonds now outstanding and which may in the future be issued on a parity therewith, represents a first lien. The City reserves the right to issue additional parity bonds in accordance with the provisions of the Bond Resolution (as defined herein). See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS – Additional Bonds" herein. **The Bonds do not constitute an obligation or indebtedness or pledge of the general credit of the City within the meaning or application of any constitutional, charter, or statutory limitation or provision, and the owners of the Bonds shall never have the right to compel any exercise of the taxing power of the City or to demand payment of the Bonds or interest thereon out of any funds other than the sources described herein. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.**

The Bonds are offered when, as and if issued by the City, subject to the approving opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Underwriter by Squire Sanders (US) LLP, Counsel to the Underwriter. It is expected that the Bonds will be delivered to DTC on or about April 4, 2012.

This cover page contains certain information for convenience of reference only. It is not a summary of material information with respect to the Bonds. Investors must read the entire official statement and all appendices to obtain information essential to the making of an informed investment decision with respect to the Bonds.

BofA Merrill Lynch

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CITY OF MESA

CITY COUNCIL

Scott Smith, Mayor
Scott Somers, Vice Mayor
Alex Finter, Councilmember
Christopher Glover, Councilmember
Dina Higgins, Councilmember
Dennis Kavanaugh, Councilmember
Dave Richins, Councilmember

CITY ADMINISTRATIVE OFFICERS

Christopher Brady, City Manager
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Chuck Odom, Senior Executive Manager
Kathryn Sorensen, Water Resources Department Director
Frank McRae, Energy Resources Department Director
Doug Yeskey, Controller
Linda Crocker, City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Wedbush Securities Inc.
Phoenix, Arizona

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REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the City of Mesa, Arizona (the "City"), Street and Highway User Revenue Refunding Bonds, Series 2012 (the "Bonds"), identified on the cover page hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall be no sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information set forth herein has been provided by the City, the Maricopa County Assessor's, Finance and Treasurer's offices, the State of Arizona Department of Revenue and Department of Transportation and other sources which are considered to be reliable and customarily relied upon in the preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the City, Wedbush Securities Inc. (the "Financial Advisor") or Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The presentation of information, including tables of receipts from taxes and other revenue sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No person, including any broker, dealer or salesman has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. All estimates and assumptions contained herein have been based on the latest information available and are believed to be reliable, but no representations are made that such estimates and assumptions are correct or will be realized. All beliefs, assumptions, estimates, projections, forecasts and matters of opinion contained herein are "forward looking statements" which must be read with an abundance of caution and which may not be realized or may not occur in the future. The information and any expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any of the other parties or matters described herein since the date hereof.

The Bonds will not be registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon the exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, pertaining to the issuance and sale of municipal securities, nor will the Bonds be qualified under the Securities Act of Arizona in reliance upon various exemptions contained in such Act. Neither the Securities and Exchange Commission nor any other Federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved this series of securities for sale.

The City will covenant to provide continuing disclosure, as described in this Official Statement under "CONTINUING SECONDARY MARKET DISCLOSURE" and in APPENDIX F — "Form of Continuing Disclosure Certificate," pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

CITY OF MESA, ARIZONA
$36,090,000
STREET AND HIGHWAY USER REVENUE REFUNDING BONDS, SERIES 2012

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the appendices hereto, has been prepared by the City of Mesa, Arizona (the "City"), in connection with the original issuance of $36,090,000 Street and Highway User Revenue Refunding Bonds, Series 2012 (the "Bonds"), identified on the cover page hereof. Certain information concerning the authorization, purpose, terms, conditions of sale, security for and sources of payment of the Bonds is set forth in this Official Statement.

Initially, the Bonds will be administered under a book-entry-only system (the "Book-Entry-Only System") by The Depository Trust Company, a registered securities depository ("DTC"). Unless and until the Book-Entry-Only System is discontinued, the Bonds will be registered in the name of Cede & Co., as nominee of DTC. See "APPENDIX D – "Book-Entry-Only System."

All financial and other information presented in this Official Statement has been provided by the City from its records, and the records of the Arizona Department of Transportation ("ADOT"), the Arizona Department of Revenue and the Maricopa County Assessor's Finance and Treasurer's office, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position, results of operations, or other affairs of the City. No representation is made that past experience, as shown by such financial or other information, will necessarily continue or be repeated in the future.

Reference to provisions of Arizona law, whether codified in the Arizona Revised Statutes ("A.R.S.") or uncodified, or of the Arizona Constitution, or the Charter of the City (the "Charter"), are references to those provisions in their current form. Those provisions may be amended, repealed or supplemented.

As used in this Official Statement "debt service" means principal of and interest on the obligations referred to, "County" means Maricopa County, Arizona and "State" or "Arizona" means the State of Arizona.

THE BONDS

Authorization and Purpose

The Bonds will be issued pursuant to the Constitution and laws of the State, including particularly A.R.S., Title 48, Chapter 4, Article 5, and under the provisions of a resolution authorizing issuance of the Bonds adopted by the Mayor and Council of the City on January 23, 2012 (the "Bond Resolution"). The Bonds are being issued to provide funds to (i) refund in advance of maturity the Bonds Being Refunded (as defined herein), and (ii) pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

In addition to the Bonds, the City expects to issue contemporaneously with the Bonds $31,665,000 General Obligation Refunding Bonds, Series 2012 and $31,580,000 Utility Systems Revenue Refunding Bonds, Series 2012, each of which were offered pursuant to separate official statements.

The City also expects to issue during the second quarter of calendar year 2012, approximately $76,540,000 principal amount of its Taxable Utility Systems Revenue Refunding Bonds, Series 2012, approximately $33,400,000 principal amount of its General Obligation Bonds, Series 2012 and approximately $62,425,000 principal amount of its Utility Systems Revenue Bonds, Series 2012, each pursuant to separate official statements.

General Provisions

The Bonds will be dated the date of delivery and will bear interest from such date payable on July 1, 2012 and semiannually thereafter on January 1 and July 1 of each year (each an "Interest Payment Date") until maturity. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover page of this Official Statement.

The Bonds will initially be administered under the Book–Entry–Only System. The Bonds will be issued only in fully registered form in denominations of $5,000 or any integral multiples thereof and, when issued, will be initially registered in the name of Cede & Co., as nominee for DTC. Payments of principal and interest of the Bonds will be made to DTC and, in turn, through participants in the DTC system. For a description of registration and transfer of the Bonds through DTC, see APPENDIX D – "Book-Entry-Only System."

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THIS OFFICIAL STATEMENT, EXCEPT THOSE UNDER THE HEADINGS "TAX EXEMPTION" AND "BOND PREMIUM" TO THE OWNERS OR REGISTERED OWNERS OF THE BONDS WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

U.S. Bank National Association will act as the initial registrar and paying agent for the Bonds (the "Registrar" and the "Paying Agent"). The City may change the Bond Registrar or the Paying Agent at any time without the consent of or notice to owners of the Bonds.

If the Book-Entry-Only System is discontinued, interest on the Bonds will be payable by check drawn on the Registrar, and mailed on or prior to each Interest Payment Date to the registered owners of the Bonds at the addresses shown on the books of the Registrar on the 15th day of the month preceding each such Interest Payment Date (the "Record Date"). Principal of the Bonds will then be payable at maturity upon presentation and surrender on the Bonds to the designated corporate trust office of the Paying Agent. Additionally, if the Book-Entry-Only System is discontinued, payment of interest may also be made by wire transfer upon twenty (20) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any owner of at least $1,000,000 aggregate principal amount of the Bonds.

No Prior Redemption

The Bonds will not be subject to redemption prior to their stated maturity dates.

PLAN OF REFUNDING

A portion of the proceeds of the Bonds will be placed in an irrevocable depository trust (the "Depository Trust") with U.S. Bank National Association (the "Depository Trustee") to be applied to the payment of the principal of and interest due on the Bonds Being Refunded identified below (the "Bonds Being Refunded"). Such funds will be used to acquire noncallable obligations issued by the United States of America (the "Government Obligations"), the principal of and interest on which, when due, are calculated to be sufficient to provide moneys to pay the principal of, and interest due on the Bonds Being Refunded. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" below.

The Government Obligations will be held by the Depository Trustee in trust for the payment of such principal of, and interest on the Bonds Being Refunded pursuant to the terms of a depository trust agreement (the "Depository Trust Agreement"), between the City and the Depository Trustee.

Bonds Being Refunded

The following table sets forth the stated maturity dates, CUSIP numbers, redemption dates and redemption price of the Bonds Being Refunded.

Refunded Issue	Maturity Date (July 1)	Principal Amount Outstanding	Amount Being Refunded	Redemption Date	Redemption Price	CUSIP No. (a)
Street and Highway User Revenue Refunding Bonds, Series 2002	2012	$4,740,000	$3,100,000	7/1/2012	N/A	590536BZ0
	2014	6,270,000	6,270,000	7/1/2012	100.00%	590536CB2
	2015	3,985,000	3,985,000	7/1/2012	100.00	590536CC0
	2016	3,300,000	3,300,000	7/1/2012	100.00	590536CD8
	2017	2,265,000	2,265,000	7/1/2012	100.00	590536CE6
Street and Highway User Revenue Bonds, Series 2003	2019	750,000	750,000	7/1/2013	100.00	590536CR7
	2020	1,000,000	1,000,000	7/1/2013	100.00	590536CS5
	2021	9,500,000	9,500,000	7/1/2013	100.00	590536CT3
	2022	9,750,000	9,750,000	7/1/2013	100.00	590536CU0
		Total	$39,920,000			

(a) Copyright 2011, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by S&P. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City, the Financial Advisor or the Underwriter and are included solely for convenience of the holders. None of the City, the Financial Advisor or the Underwriter are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness. The CUSIP number for a specific maturity is subject to being changed as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

Upon the deposit of funds into the Depository Trust, the Street and Highway User Revenue Refunding Bonds, Series 2002 being refunded shall no longer be deemed Outstanding Parity Bonds or secured by the below-described Pledged Revenues.

If the monies and Government Obligations held in the Depository Trust are not sufficient to pay the principal of interest and premium due on the Street and Highway User Revenue Bonds, Series 2003 being refunded, such bonds would continue to be secured by, and have a co-equal claim upon, Pledged Revenues on a parity with the Outstanding Parity Bonds, including the Bonds. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS – General” herein.

The City is refinancing the Bonds Being Refunded to achieve a combination of debt service savings and restructuring of portions of the City’s street and highway user revenue bond debt service configuration.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent certified public accountants, will deliver to the City, on or before the issue date of the Bonds, its verification report indicating, among other things, that it has verified, in accordance with standards for attestation engagements established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the sufficiency of the anticipated receipts from the Government Obligations, together with the initial cash deposit, to pay, when due, the principal of, interest and applicable premiums, if any, on the Bonds Being Refunded and (b) the yields on the Government Obligations and the Bonds.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the City and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the City and its representatives and has assumed the accuracy of the data, information and documents used in the computations.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

The Bonds are payable as to both principal and interest solely from the revenues derived by the City from highway user taxes, including motor vehicle fuel taxes and all other taxes, fees, charges and other moneys relating to registration, operation or use of vehicles on the public highways or streets or to fuels or any other energy source used for the propulsion of vehicles on the public highways or streets collected by the State and returned to the City pursuant to law, including the provisions of A.R.S. Title 28, Chapter 18, Article 2, as amended (the "Pledged Revenues" and "Highway User Revenues"). See "HIGHWAY USER REVENUES" herein. The pledge of such amounts to the payment of the Bonds, together with other bonds currently outstanding and additional bonds which may in the future be issued on a parity therewith (collectively, the "Parity Bonds"), represents a first lien thereon.

The Bonds do not constitute an obligation or indebtedness or a pledge of the general credit of the City or the State within the meaning or application of any constitutional, charter or statutory limitation or provision, and the owners of the Bonds shall never have the right to compel any exercise of the taxing power of the City or the State or to demand payment of the Bonds or interest thereon out of any funds other than the sources described herein.

Following collection and deposit of the proceeds of the Pledged Revenues into the debt service fund, the City may invest such Pledged Revenues in investments comprised of, with certain restrictions: federally insured savings accounts or certificates of deposit from eligible depositories; collateralized repurchase agreements; obligations issued or guaranteed by the United States or any agency or instrumentality thereof; obligations of the State of Arizona or any Arizona city (including the City), town or school district; bonds of any county, municipality or municipal utility or special district; obligations of any Arizona local improvement district payable from property assessments; and the local government investment pool established by the State of Arizona; **THE PROCEEDS OF THE BONDS ARE NOT PLEDGED TO, NOR DO THEY SECURE, PAYMENT OF THE BONDS.**

Additional Bonds

Bond Resolution Requirements for Issuance of Additional Bonds The Bond Resolution provides that additional bonds may be issued on a parity with the Bonds only when:

A. All of the payments of principal and interest on the Bonds and other Parity Bonds outstanding are current;

B. The Pledged Revenues subject to pledge for payment of the Bonds and other Parity Bonds outstanding for the preceding twelve-month period exceeds by one and one-half times the highest annual principal and interest to be paid on the Bonds and other Parity Bonds outstanding and the bonds to be issued during any one-year period;

C. The Parity Bonds sought to be issued shall mature and the principal and interest shall be payable at the same time as the Bonds and other Parity Bonds outstanding;

D. The proceeds from the sale of the Parity Bonds being issued shall be used for the improvement, construction, reconstruction and maintenance of the municipal streets and highways, including the acquisition of rights-of-way or to refund bonds issued for that purpose.

E. In the event that any Parity Bonds are variable rate bonds, any repayment to be made to a credit facility under a reimbursement agreement shall be subordinate to the rights of the registered owners of the Bonds and any Parity Bonds to the Highway User Revenues and in determining the maximum annual debt service on such Parity Bonds, the principal requirements on debts supported by a credit facility shall be determined in accordance with the principal retirement schedule specified in the proceedings authorizing the issuance of such Parity Bonds or in the amortization schedule set forth in the credit facility, whichever schedule produces the highest maximum annual debt service amount. The interest rate requirement is to be calculated using the maximum interest rate allowed in the proceedings authorizing the issuance of such Parity Bonds or the maximum interest rate set forth in the credit facility; and

F. The Parity Bonds sought to be issued will bear a rating of "A" or better by at least one nationally recognized credit rating agency.

The Bonds are being issued on a parity with the City's Street and Highway User Revenue Bonds, previously issued in nine separate series, and to be outstanding upon issuance of the Bonds in the aggregate principal amount of $126,655,000.

Upon issuance of the Bonds, the City will have $2,960,000 Street and highway user revenue bonds remaining authorized but unissued from the March 9, 2004 special bond election.

Statutory Requirements for Issuance of Additional Bonds. A.R.S. Section 48-689 presently requires that in order for the City to issue additional bonds payable from Pledged Revenues (whether Parity Bonds or subordinate lien bond), the City much have received Pledged Revenues in the year preceding the issuance of the additional bonds in an amount at least equal to one and one-half times the highest amount annual principal and interest requirements thereafter to come due on all bonds, including the bonds proposed to be issued, to be outstanding following the issuance of the additional bonds. A.R.S. Section 48-689 also requires that if the Pledged Revenues received during the preceding year do not equal at least two times the highest annual principal and interest requirements, the proposed bonds must bear a rating at the time of issuance of "A" or better by at least one nationally recognized credit rating service, taking into account any credit enhancement facility in effect with respect to such bonds.

HIGHWAY USER REVENUES

The following is a summary of certain information with respect to Highway User Revenues. This summary does not purport to be a complete description of the revenue sources and, accordingly, is qualified by reference to the relevant sections of the Arizona Revised Statutes. The State Legislature has in the past altered and may in the future alter the statutes governing these revenue sources and their allocation.

General

Under the provision of Arizona Revised Statutes Section 48-681 et seq., an incorporated city or town may borrow money and issue bonds for the purposes of improving, constructing, reconstructing and acquiring rights-of-way for and maintaining municipal streets and highways or to refund bonds issued for such purposes. Principal of and interest on bonds issued for such purposes are secured by a pledge of and lien on revenues derived from taxes, fees, charges and other moneys collected by the State and returned to such city or town for street and highway purposes pursuant to law ("Highway User Revenues"). Highway User Revenues are deposited and held in the State highway user revenue fund established pursuant to A.R.S. Section 28-6533 (the "Arizona Highway User Revenue Fund") until distributed. The Highway User Revenues are distributed by the State, as described below, pursuant to a highway and transportation financing program established by the State Legislature for the benefit of the State and counties and cities within the State, including the City.

Highway User Revenues currently include all or a portion of (i) motor vehicle fuel taxes and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) a portion of motor vehicle license (in lieu) taxes, (v) motor vehicle operators' license fees and miscellaneous fees and revenues, as described below, and (vi) off highway user fee.

Motor Vehicle Fuel Taxes. Motor vehicle fuel taxes consist of motor vehicle fuel (gasoline) taxes and motor vehicle use fuel (primarily diesel) taxes. These are excise taxes imposed upon fuel used in the propulsion of a motor vehicle on the public highways of the State. The motor vehicle fuel (gasoline) tax is currently assessed at the rate of $.18 per gallon, and the use fuel (primarily diesel) tax is assessed at $.18 for vehicles under 26,001 pounds and other qualifying vehicles and $.26 per gallon for all other vehicles. The motor vehicle fuel tax is collected by ADOT from licensed suppliers for each gallon of gasoline possessed, used or consumed in the State and the motor vehicle use fuel tax is collected by ADOT from the supplier or paid by the user for the use of the highways in this State and remitted to ADOT.

Motor Vehicle Registration Fee Revenues. Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is $8, and the fee for motorcycles is $9, of which $1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is $12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. All motor vehicle registration fees are deposited in the Arizona Highway User Revenue Fund.

Motor Vehicle License (In Lieu) Tax Revenues. The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. These license taxes are distributed as follows: (i) 37.61% to the Arizona User Revenue Fund, (ii) 20.45% to the general fund of the county where the motor vehicle is registered, (iii) 4.91% to the counties for any purposes related to transportation, on the basis that the population of the unincorporated area of each county bears to the population of the unincorporated areas of all counties in the this state, (iv) 20.45 to the incorporated cities and towns of the county in proportion to the population of each, (v) 5.73% is deposited in the state highway fund, and (vi) 10.85% is deposited in the state general fund to aid school financial assistance.

Motor Carrier Fees. The motor carrier fee is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. The motor carrier fee increases as the declared gross vehicle weight increases. All motor carrier fee revenues are deposited to the Arizona Highway User Revenue Fund.

Motor Vehicle Operators' License Fees and Miscellaneous Fees and Revenues. Motor vehicle operators' license fees, certificates of title fees, inquiry fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees are also deposited in the Arizona Highway User Revenue Fund.

Distribution of Highway User Tax Revenues

After certain *de minimus* statutory allocations are made, Highway User Tax Revenues are allocated in accordance with the following statutory formula: ADOT receives 50.5%, counties receive 19%, incorporated cities and towns receive 27.5% and incorporated cities with a population of 300,000 or more, 3%.

The distribution of revenues to the incorporated cities and towns (the 27.5% portion) is made on the following basis:

(1) one-half of such Highway User Tax Revenues is distributed to each incorporated city and town in the proportion that the population of each bears to the population of all cities and towns within the State, and

(2) the remaining one-half is apportioned first on the basis of the county origin of sales of motor vehicle fuels within the State. This amount is further apportioned among the several incorporated cities and towns within each county in the proportion that the population of each city or town bears to the total population of all cities and towns within the respective county.

The 3% distribution to incorporated cities with populations in excess of 300,000, including the City, is apportioned among such cities for the acquisition of rights-of-way or construction of streets or highways based on population.

Effective June 30, 2005, in order to be eligible to receive its allocation of Highway User Revenues from the State, a county with a population of 400,000 persons or an incorporated city or town with a population of 30,000 or more persons that is located in such county is required to budget and spend local revenues for street and highway purposes at least equal to the average amount of local revenues budgeted and spent for street and highway purposes for any four of the five fiscal years during the period beginning with fiscal year 1981/82 and ending with fiscal year 1985/86. If such a county, city or town does not comply with these budgeting requirements, the next twelve monthly distributions received by the county, city or town will be reduced, beginning in April of the fiscal year following the fiscal year in which the requirement was not met, by one-twelfth of the difference between the amount distributed to the county, city or town in the year of noncompliance and the amount distributed to the county, city or town in fiscal year 1969/70.

In addition, cities and towns are required to submit needs data and information concerning the status of transportation systems to ADOT for use in the preparation of the statewide transportation status and needs report in accordance with procedural guidelines established by ADOT and in accordance with standards established by the "ADOT Technical Advisory Committee." If such committee determines that a city or town has not complied with the procedural guidelines, the committee is to advise the director of ADOT to request that the revenues for that city or town not be distributed to the city or town. The City has in the past complied, and has covenanted in the Bond Resolution to continue to comply, with such budget and expenditure requirements, reporting requirements and relevant procedural guidelines.

The State Legislature has previously altered and may in the future alter (1) the type and/or rate of the taxes, fees and charges which are deposited into the Arizona Highway User Revenue Fund or (2) the allocation formulas for such moneys between (a) deposits into the State Highway Fund for use by ADOT and (b) distribution to cities, towns and counties (or other State fund). The authority of the State Legislature to make such changes in the use of monies deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the Arizona Constitution that the majority of the funds comprising the Highway User Revenues may only be used for highway-related purposes including, but not limited to, paying debt service on bonds issued for such purposes by the State and political subdivisions such as the City. See "Recent Legislation" below.

Recent Legislation

From time to time legislation is enacted that alters or modifies the deposits of monies into, and the distribution of monies from, the Arizona Highway User Revenue Fund. The information provided below reflects the more significant legislative enactments affecting distributions to cities, towns and counties that have occurred since the State Legislature's 2005 regular session.

During the 2005 regular session, legislation was enacted (SB 1513) that distributed $59.6 million from the Arizona Highway User Revenue Fund to the Arizona Department of Public Safety (DPS) in fiscal year 2006.

During the 2006 regular session, legislation was enacted (HB 2863) that distributed $10.0 million from the Arizona Highway User Revenue Fund to DPS in fiscal year 2007.

During the 2007 regular session, legislation was enacted (HB 2781) that distributed $10.0 million from Arizona Highway User Revenue Fund to DPS in fiscal year 2008. Other legislation was enacted (SB 2783) that distributed $6.69 million from the Arizona Highway User Revenue Fund to the State Highway Fund (in addition to the normal 50.5% distribution) in fiscal year 2008 to construct two Motor Vehicle Division (MVD) service centers and an ADOT multi-use facility.

During the 2008 regular session, effective January 1, 2009, off-highway vehicle user fees were added to the Arizona Highway User Revenue Fund.

During the 2008 regular session, legislation was enacted (HB 2209) that distributed $84.9 million from the Arizona Highway User Revenue Fund to DPS in fiscal year 2009.

During the 2009 regular session, legislation was enacted (SB 1188) that distributed $1.0 million from the Arizona Highway User Revenue Fund to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State and local jurisdictions in fiscal year 2010.

During the 2009 regular session, legislation was enacted (SB 1188) that distributed $78.1 million from the Arizona Highway User Revenue Fund to DPS in fiscal year 2010.

During the 2010 seventh special session, legislation was enacted (HB 2001) that distributed $78.6 million from the Arizona Highway Arizona Highway User Revenue Fund to the DPS in fiscal year 2011.

During the 2011 regular session, legislation was enacted (SB 1612) that distributes approximately $120.7 million from the Arizona Highway User Revenue Fund to DPS in fiscal year 2012. This bill also distributes approximately $86.9 million from the Arizona Highway User Revenue Fund to the State Highway Fund for MVD operations in fiscal year 2012. In addition, the bill requires a transfer of approximately $105.3 million from the State Highway Fund share of its Arizona Highway User Revenue Fund Vehicle License Tax distribution to the State General Fund in fiscal year 2012. Other legislation was enacted (SB 1616) that requires a transfer of approximately $4.1 million from the State Highway Fund share of its Arizona Highway User Revenue Fund distribution to the ten least populated Arizona counties in fiscal year 2012.

Highway User Revenue History – State of Arizona

The following tables indicate for the periods shown the amount of Highway User Revenues collected by the State and the number of motor vehicle registrations and gallons of motor vehicle fuel taxed within the State and within Maricopa County, in which the City is located.

TABLE 1
STATE OF ARIZONA
HIGHWAY USER REVENUES
(000'S)

Fiscal Year	Gasoline and Use Fuel Revenues	Registration and In Lieu Taxes	Motor Carrier Tax	License Fees and Other	Total Highway User Revenues*
2010/11	$634,983	$478,165	$36,300	$55,626	$1,205,073
2009/10	626,744	482,151	35,807	49,714	1,194,417
2008/09	630,743	525,063	40,483	52,294	1,248,583
2007/08	700,395	547,951	40,177	55,953	1,344,477
2006/07	707,984	571,285	45,226	57,979	1,382,474

* Total may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning

TABLE 2
MOTOR VEHICLE REGISTRATIONS

	State of Arizona		Maricopa County, Arizona	
Fiscal Year (June 30)	Total Number of Vehicle Registrations *	Percentage Change	Total Number of Vehicle Registrations *	Percentage Change
2010/11	6,839,659	(1.47) %	3,776,819	(0.99) %
2009/10	6,740,536	(0.71)	3,739,918	0.37
2008/09	6,692,834	0.61	3,753,941	2.01
2007/08	6,733,610	(1.89)	3,831,138	(0.99)
2006/07	6,608,726	(4.59)	3,793,646	(3.03)

* Point-in-time vehicle registrations as of the report date for which a full registration fee was charged, not including pro-rated vehicles and vehicles which are exempt from paying registration fees.

Source: Arizona Department of Transportation, Motor Vehicle Division

TABLE 3
GALLONS OF MOTOR VEHICLE FUEL TAXED

	State of Arizona		Maricopa County, Arizona	
Fiscal Year	Total Gallons Taxed *	Percentage Change	Total Gallons Taxed *	Percentage Change
2010/11	3,411,651,562	(1.24) %	1,670,617,754	(2.07) %
2009/10	3,369,732,374	0.86	1,636,794,029	4.19
2008/09	3,398,865,744	8.92	1,708,335,833	7.11
2007/08	3,731,808,040	0.74	1,839,138,507	0.95
2006/07	3,759,465,379	(3.39)	1,856,770,154	(5.67)

* Includes both gasoline and use fuel gallonage. Subject to change for up to 24 months due to amended reports and audits of fuel suppliers.

Source: Arizona Department of Transportation, Motor Vehicle Division.

Highway User Revenues Received by the City

The following table sets forth the annual Highway User Revenues received by the City during the most recent five fiscal years for which audited information is available.

TABLE 4
CITY OF MESA
HIGHWAY USER REVENUE RECEIPTS

Fiscal Year	Highway User Revenue Receipts
2011/12*	$30,734,000
2010/11	32,052,757
2009/10	31,790,889
2008/09	34,259,887
2007/08	38,512,394
2006/07	40,971,023

* Projection, forward looking statements must be read with an abundance of caution.

Source: City of Mesa, Finance Department.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds will be applied substantially as follows:

Sources of Funds:	
The Bonds	$36,090,000.00
Original Issue Premium	5,837,481.60
Total Sources of Funds	$41,927,481.60
Uses of Funds:	
Deposit to Depository Trust	$41,674,984.32
Costs of Issuance*	248,984.50
Deposit to Debt Service Fund	3,512.78
Total Uses of Funds	$41,927,481.60

* Includes Underwriter's compensation. Certain costs incurred by the City in connection with the issuance of the Bonds will be paid by the Depository Trustee from proceeds of the Bonds.

DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

The following schedule sets forth (i) the annual debt service requirements of the City's outstanding street and highway user revenue bonds, net of the Bonds Being Refunded (ii) the annual debt service requirements of the Bonds, (iii) the total annual street and highway user revenue bond debt service requirements following issuance of the Bonds and (iv) the estimated debt service coverage ratio for such total annual debt service requirements based upon the City's fiscal year 2010/11 receipts of Highway User Revenues ($32,052,757).

City of Mesa, Arizona
Schedule of Estimated Annual
Street and Highway User Revenue Bond Debt Service
Requirements and Debt Service Coverage (a)

Fiscal Year (b)	Street and Highway User Revenue Bonds Outstanding (c)		The Bonds		Combined Annual Debt Service Requirements	Estimated Debt Service Coverage Provided By Highway User Revenues (e)
	Principal	Interest	Principal	Interest (d)		
2011/12	$ 3,290,000	$5,156,874		$ 406,375	$8,853,248	3.62x
2012/13	6,745,000	4,107,505		1,681,500	12,534,005	
2013/14	770,000	3,790,350	$ 6,175,000	1,681,500	12,416,850	
2014/15	3,370,000	3,751,650	3,885,000	1,434,550	12,441,200	
2015/16	4,395,000	3,605,100	3,190,000	1,279,150	12,469,250	
2016/17	5,725,000	3,383,200	2,175,000	1,119,650	12,402,850	
2017/18	8,375,000	3,098,950		1,010,000	12,483,950	2.56x
2018/19	8,050,000	2,682,200	665,000	1,010,000	12,407,200	
2019/20	8,250,000	2,281,825	905,000	990,950	12,427,775	
2020/21	250,000	1,870,700	9,395,000	954,750	12,470,450	
2021/22	375,000	1,859,500	9,700,000	485,000	12,419,500	
2022/23	10,000,000	1,842,250			11,842,250	
2023/24	10,475,000	1,341,625			11,816,625	
2024/25	10,850,000	815,438			11,665,438	
2025/26	3,775,000	326,188			4,101,188	
2026/27	3,900,000	165,750			4,065,750	
	$88,595,000		$36,090,000			

(a) Prepared by the Financial Advisor.

(b) Amounts shown for each fiscal year includes the principal and interest due on July 1 of the following fiscal year.

(c) Represents all street and highway user revenue bonds outstanding net of the Bonds Being Refunded.

(d) The first interest payment on the Bonds is due on July 1, 2012. Thereafter, interest payments will be made semiannually on July 1 and January 1 until maturity.

(e) The preceding table indicates that the highest combined annual debt service requirement for all of the City's street and highway user revenue bonds to be outstanding immediately following issuance of the Bonds is estimated to occur in fiscal year 2017/18 in the amount of approximately $12,483,950, which maximum annual debt service requirement is indicated in the preceding table to be covered by fiscal year 2010/11 Highway User Revenues approximately 2.56 times.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Financial Services LLC ("S&P") have assigned ratings of "A2" and "AA", respectively, for the Bonds. Such ratings reflect only the views of S&P and Moody's. An explanation of the significance of such ratings may be obtained from S&P at 55 Water Street, New York, New York 10041 and from Moody's at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Such ratings may subsequently be revised downward or withdrawn entirely by S&P or Moody's, if, in their judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Bonds. The City will covenant in its continuing disclosure certificate (see "CONTINUING SECONDARY MARKET DISCLOSURE" below) that it will cause notices to be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA") of any formal change in the ratings relating to the Bonds.

LEGAL MATTERS

Legal matters relating to the validity of the Bonds under Arizona law and with regard to the tax-exempt status of the interest thereon will be prepared by Gust Rosenfeld P.L.C., Phoenix, Arizona ("Bond Counsel"). The signed legal opinion of Gust Rosenfeld P.L.C., dated and premised on the law in effect only as of the date of original delivery of the Bonds, will be delivered to the City at the time of issuance.

The proposed text of the legal opinion to be provided to the City by Gust Rosenfeld P.L.C. is set forth in APPENDIX E. The legal opinion to be delivered may vary from the text of APPENDIX E if necessary to reflect the facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution, by recirculation of this Official Statement or otherwise, should not be construed as a representation that Bond Counsel has reviewed or expressed any opinion concerning any matters relating to the Bonds subsequent to the original delivery of the Bonds.

Such legal opinion expresses the professional judgment of Bond Counsel as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the performance of parties to the transaction. The rendering of an opinion also does not guarantee the outcome of any legal dispute that may arise out of the transaction.

Certain legal matters will be passed upon solely for the benefit of the Underwriter (as defined below under "UNDERWRITING,") by Squire Sanders (US) LLP, Counsel to the Underwriter.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain restrictions, conditions and requirements by the City as described below, interest income on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Arizona income taxes. The opinion of Bond Counsel will be dated the date of the delivery of the Bonds. A form of such opinion is included herein in APPENDIX E – "Form of Approving Legal Opinion".

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various restrictions, conditions and requirements relating to the continued exclusion of interest income on the Bonds from gross income for federal income tax purposes, including a requirement that the City rebate to the federal government certain of its investment earnings with respect to the Bonds. The City has covenanted to comply with the provisions of the Code relating to such matters. Failure to comply with such restrictions, conditions, and requirements could result in the interest income on the Bonds being included in gross income for federal income tax purposes, under certain circumstances, from the date of issuance. The opinion of Bond Counsel assumes continuing compliance with such covenants.

The Code also imposes an "alternative minimum tax" upon certain corporations and individuals. A taxpayer's "alternative minimum taxable income" ("AMTI") is its taxable income with certain adjustments. Interest income on the Bonds is not an item of tax preference to be included in the AMTI of individuals or corporations.

Notwithstanding the preceding sentence, one of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess (if any) of the corporation's "adjusted current earnings" over the corporation's AMTI for the taxable year (determined without regard to such adjustment for excess book income and the alternative tax net operating loss deduction). A corporation's "adjusted current earnings" includes all tax-exempt interest, including the interest on the Bonds.

Although Bond Counsel will render an opinion that, as of the delivery of the Bonds, interest income on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect a Beneficial Owner's federal tax liability. Certain taxpayers may experience other tax consequences. Taxpayers purchasing the Bonds, including without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain subchapter S corporations, individuals who receive Social Security or Railroad Retirement benefits and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax-exempt obligations should consult their tax consultants as to the applicability of such tax consequences to the respective Beneficial Owner. The nature and extent of these other tax consequences will depend upon the respective Beneficial Owner's particular tax status and the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The Bonds are not "private activity bonds," within the meaning of Section 141 of the Code.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature the result of which could modify the tax treatment of obligations such as the Bonds. Court proceedings may also be filed or regulatory clarifications of the Code may be issued, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court or regulatory clarifications of the Code, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, on February 13, 2012, President Obama proposed a budget for federal fiscal year 2012 that calls for a 28% across-the-board cap on the value of tax preferences, including the exclusion of interest income on State and local bonds. If enacted, a value cap on the exclusion of interest on State and local bonds would, among other things, result in additional federal income tax for tax years beginning after 2012 on taxpayers that own tax-exempt bonds or obligations, including the Bonds, if they have incomes above certain thresholds.

BOND PREMIUM

The initial public offering price of the Bonds of each maturity (the "Premium Bonds") is greater than the amount payable on such Premium Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial Beneficial Owner of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial Beneficial Owner must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial Beneficial Owner is determined by using such Beneficial Owner's yield to maturity. Beneficial Owners of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

LITIGATION

At the time of delivery of the Bonds, an officer of the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending, or to the knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or that questions the City's right or authority to receive the sources of payment of the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Bond Resolution, the Depository Trust Agreement, or the Continuing Disclosure Certificate (as defined below), or contesting in any way the completeness or accuracy of this

Official Statement, or any amendment or supplement thereto, or contesting the power of authority of the City to execute and deliver the Depository Trust Agreement or the Continuing Disclosure Certificate, or wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds, the Bond Resolution, the Depository Trust Agreement, or the Continuing Disclosure Certificate, or have a material adverse effect on the transaction contemplated by this Official Statement.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") has agreed to purchase the Bonds at an aggregate purchase price of $41,828,497.10, pursuant to a bond purchase agreement (the "Purchase Contract") entered into by and between the City and the Underwriter. If the Bonds are sold to produce the yields shown on the front cover hereof, the Underwriter's compensation will be $98,984.50. The Purchase Contract provides that the Underwriter will purchase all of the Bonds so offered, if any, are purchased. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower or yields higher than the public offering prices stated on the cover page hereof. The initial offering prices or yields set forth on the front cover may be changed from time to time by the Underwriter.

CERTIFICATION CONCERNING OFFICIAL STATEMENT

The closing documents will include a certificate confirming that, to the best knowledge, information and belief of the City's Senior Executive Manager, the descriptions and statements contained in this Official Statement are at the time of issuance of the Bonds, true, correct and complete in all material respects and do not contain an untrue statement of a material fact, or omit to state a material fact required to be stated therein in order to make the statements, in light of the circumstances under which they are made, not misleading. In the event this Official Statement is supplemented or amended, the foregoing confirmation will also encompass such supplements or amendments.

FINANCIAL ADVISOR

The Financial Advisor has been engaged by the City for the purpose of advising the City as to certain debt service structuring matters specific to the Bonds and on certain matters relative to the City's overall debt financing program. The Financial Advisor has assisted in the assembly and preparation of this Official Statement at the direction and on behalf of the City. No person is entitled to rely on the Financial Advisor's participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy and completeness of the information contained herein.

CONTINUING SECONDARY MARKET DISCLOSURE

The City will covenant for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than February 1 in each year commencing February 1, 2013 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notices"), as set forth in APPENDIX F – "Form of Continuing Disclosure Certificate" (the "Continuing Disclosure Certificate"). The Annual Reports and Notices and any other documentation or information required to be filed by such covenants will be filed by the City with the MSRB, in a format prescribed by the MSRB. Currently the MSRB's requires filing through the MSRB's EMMA system as described in APPENDIX F – "Form of Continuing Disclosure Certificate."

These covenants will be made in order to assist the Underwriters in complying with the Securities Exchange and Commission Rule 15c2-12 (the "Rule"). The form of the undertaking necessary pursuant to the Rule is included as APPENDIX F hereto. A failure by the City to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Absence of continuing disclosure could adversely affect the Bonds and specifically their market price and transferability.

The City has complied with all existing continuing disclosure undertakings related to the City in all material respects.

CANCELLATION OF CONTRACTS

As required by the provisions of Arizona Revised Statutes Section 38-511, as amended, the City may, within three years of its execution, cancel any contract, without penalty or further obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the City is, at any time while the contract or any extension thereof is in effect, an employee of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract.

GENERAL PURPOSE FINANCIAL STATEMENTS

The General Purpose Financial Statements of the City for the year ended June 30, 2011, a copy of which is included in APPENDIX C of this Official Statement, have been audited by LarsonAllen LLP, certified public accountants, to the extent and for the period indicated in their report thereon. The City is not aware of any facts that would make such Audited General Purpose Financial Statements misleading. The Audited General Purpose Financial Statements are for the fiscal year ending June 30, 2011 and are not current. The City neither requested nor obtained the consent of LarsonAllen LLP to include the report, and LarsonAllen LLP has performed no procedures subsequent to rendering its opinion on the financial statements.

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact of certainty and no representation is made that any of these statements have been or will be realized. Information set forth in this Official Statement has been derived from the records of the City and from certain other sources, as referenced, and is believed by the City to be accurate and reliable. Information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed.

Neither this Official Statement nor any statements that may have been or that may be made orally or in writing are to be construed as a part of a contract with the original purchasers or subsequent owners of the Bonds.

This Official Statement has been prepared by the City and executed for and on behalf of the City by its Senior Executive Manager, as indicated below.

CITY OF MESA, ARIZONA

By: /s/ Chuck Odom
Senior Executive Manager

CITY OF MESA, ARIZONA
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The City is the third largest city in the State and the 38th largest city in the United States. Founded in 1878 and incorporated in 1883, the City has an estimated population of 441,160. The following table illustrates the City's population statistics since 1980, along with the population statistics for the County and the State, respectively.

POPULATION STATISTICS

Year	City of Mesa	Maricopa County	State of Arizona
2011 Estimate*	441,160	3,843,370	6,438,178
2010 Census	439,041	3,817,117	6,392,017
2000 Census	396,375	3,072,149	5,130,632
1990 Census	288,091	2,122,101	3,665,305

Source: Arizona Department of Administration, Office of Employment and Population Statistics and US Census Bureau, American FactFinder.

* Estimate as of July 1, 2011.

The following table sets forth a record of the City's geographic area since 1970.

SQUARE MILE STATISTICS
City of Mesa, Arizona

Year	Square Miles
2010	133.14
2000	125.00
1990	122.11
1980	66.31
1970	20.80

Source: City of Mesa, Arizona, Planning and Community Development Department.

Municipal Government and Organization

The City operates under a charter form of government with citizens electing a Mayor and six Council members to set policy for the City. In 1998, a voter initiative was approved changing the way Council members are elected from an at-large to a district system. Six districts were created and in March 2000, the first three district Council members were elected in Districts 1, 2 and 3. In March 2002, Districts 4, 5 and 6 elected their first district Council members. The City's Council members serve terms of four years, with three members being elected every two years. The Mayor continues to be elected at-large every four years. The Mayor and Council are elected on a non-partisan basis, and the Vice Mayor is a councilmember selected by the City Council.

The City Manager, who has full responsibility for carrying out City Council policies and administering City operations, is appointed by the Mayor and City Council. The City Manager is responsible for the appointment of City department heads. Additionally, City employees are hired under merit system procedures as specified in the City Charter. The various functions of City government and operations are undertaken by City employees working the various City departments.

City Administrative Staff

Christopher Brady, City Manager. Mr. Brady was appointed by City Council to serve as City Manager effective January 1, 2006. Under Mesa's council-manager form of government, the City Manager serves as the chief operating officer of the City, one of the fastest-growing cities of the United States. Mr. Brady implements the policies established by the City Council and coordinates all City departments and other affairs assigned by the City Charter. Prior to joining the City, Mr. Brady served as Assistant City Manager for the City of San Antonio, Texas. Mr. Brady has a Bachelor of Fine Arts degree in Political Science and a Masters in Public Administration from Brigham Young University.

Kari Kent, Deputy City Manager. Ms. Kent has been with the City since 1993. She was promoted to Solid Waste Management Director in 1999, Assistant Development Services Director in July 2001, and Neighborhood Services Director since June 2006, and was appointed Deputy City Manager in June 2007. Ms. Kent received a Bachelor of Science Degree from Northern Arizona University and a Masters of Public Administration from Arizona State University.

John Pombier, Deputy City Manager. Mr. Pombier was hired as the City Prosecutor in 2003 and was promoted to Deputy City Manager in 2011. Mr. Pombier has a law degree from Arizona State University and a Bachelor of Business Administration from University of Michigan School of Business.

Chuck Odom, Senior Executive Manager. Mr. Odom has been with the City in various positions since March 1987. He was promoted to Budget Director in February 2006 and Senior Executive Manager in December 2010. He earned a Bachelor of Science Degree in Accountancy from Northern Arizona University.

Economy

The City's major economic sectors are comprised of manufacturing, non-manufacturing, government and commercial activities (including construction and commerce), agriculture and tourism.

The following table sets forth unemployment averages for the United States, the State, the County and the City for the most recent five full years for which such information is available.

UNEMPLOYMENT AVERAGES

Year	United States	State of Arizona	Maricopa County	City of Mesa
2011	8.9%*	9.2%*	8.3%**	7.6%**
2010	9.6	10.0	8.6	8.0
2009	9.3	9.7	8.3	7.6
2008	5.8	5.9	5.1	4.7
2007	4.6	3.8	3.3	3.0
2006	4.6	4.1	3.5	3.3

* Data is a preliminary average.

** Data is not seasonally adjusted and is a preliminary average through November 2011.

Source: U.S. Department of Labor, Bureau of Labor Statistics & State of Arizona, Department of Commerce, Research Administration, CES/LAUS Unit.

Manufacturing and Non-Manufacturing Employment

A list of significant employers located within the City is set forth in the following table.

MAJOR EMPLOYERS
City of Mesa, Arizona

Employer	Description	Approximate Employment
Mesa Public Schools	Public Education	8,800
Banner Health System	Hospital Network	8,050
Boeing, Inc.	Helicopter Manufacturing and Assembly	4,700
City of Mesa	Government	3,500
Maricopa County Government	Government	1,300
The Kroger Company	Grocery Store	1,000
Mountain Vista Medical Center	Hospital	900
Home Depot	Retail	750
Empire Southwest / Caterpillar LLC	Construction Machinery	750
Mesa Community College	Education	700

Source: City of Mesa – Office of Economic Development, Phoenix Business Journal Book of Lists 2011 and an individual employer survey.

Phoenix-Mesa Gateway Airport and the Airport/Campus District

Phoenix-Mesa Gateway Airport (formerly known as Williams Gateway Airport) has three runways (10,401 feet, 10,201 feet, and 9,301 feet) and a newly expanded and remodeled passenger terminal. Phoenix-Mesa Gateway Airport is a small-hub commercial airport serving the Phoenix-Mesa metropolitan area and currently has two airlines, Allegiant Air and Spirit Airlines. Allegiant Air and Spirit Airlines provide direct service to over 30 cities. One of the fastest growing commercial airports in the United States, Phoenix-Mesa Gateway Airport served over 950,000 passengers in 2011 with an estimated 1.3 million expected for 2012.

Phoenix-Mesa Gateway Airport is also developing as an international aerospace center with aircraft maintenance, modification, testing, and pilot training. Currently more than 35 aviation companies operate on the airport, including three manufacturer service centers for Cessna, Embraer, and Hawker-Beechcraft. In Fiscal Year 2010, the airport commissioned Arizona State University to conduct an economic impact study. According to that study, the total economic benefit (including all multiplier effects) totaled $685 million, supporting 4,900 jobs in the area. On-airport economic activity produced $273 million of output, creating employment for 886 on-airport workers, and proprietor earnings of $53.6 million.

Phoenix-Mesa Gateway Airport is owned and operated by the Phoenix-Mesa Gateway Airport Authority whose members include the City, City of Phoenix, Town of Gilbert, Town of Queen Creek, and the Gila River Indian Community.

Adjacent to Phoenix-Mesa Gateway Airport, the Airport/Campus District serves approximately 8,700 students. The campus includes five higher education partners - Arizona State University Polytechnic campus, Chandler-Gilbert Community College, Embry-Riddle Aeronautical University, Mesa Community College and UND Aerospace. The ASU Polytechnic campus has expanded and added new academic buildings that doubled the instructional lab and classroom space, and added faculty offices and a 500-seat auditorium.

The Arizona Department of Transportation has recently awarded the contract for construction of State Route 24, a one-mile freeway segment extending access from the existing State Route 202 freeway eastward. This freeway segment lies immediately north of Phoenix-Mesa Gateway Airport, and will provide freeway access to the east side of the airport property. Such access will be beneficial for the economic development of properties located on, and adjacent to, Phoenix-Mesa Gateway Airport, as well as future terminal development on the east side.

Construction

The following tables set forth annual records of building permit values and new housing permits issued within the City for the period 2007-2011.

VALUE OF BUILDING PERMITS
City of Mesa, Arizona
($000's omitted)

Year	Residential	Commercial	Industrial	Other	Total
2011	$169,238	$ 293,054	-	$ 35,323	$497,615
2010	153,146	26,125	$2,697	44,181	226,149
2009	162,040	63,988	6,550	35,306	267,884
2008	140,104	291,678	18,519	196,585	646,886
2007	32,093	54,446	24,242	34,749	145,530

Source: Arizona State University Realty Studies and the City. Note that the report obtains its data from County and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date on which the permit is issued is not to be construed as the date of construction.

NEW HOUSING PERMITS
City of Mesa, Arizona

Year	Total New Housing Units
2011	1,447
2010	782
2009	1,093
2008	1,460
2007	1,631

Source: Arizona State University Realty Studies and the City. Note that the report obtains its data from County and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date on which the permit is issued is not to be construed as the date of construction.

Retail

The following table set forth is a record of retail sales activity within the City.

TAXABLE
RETAIL SALES
City of Mesa, Arizona

Year	Retail Sales
2010/11	$3,458,279,940
2009/10	3,662,333,085
2008/09	4,955,009,829
2007/08	5,638,200,343
2006/07	6,064,941,444

Source: City of Mesa.

Agriculture

Although still a contributor to the economic base, the agricultural sector is no longer a significant factor of the City's economy due to the industrial, commercial and residential development which has occurred over the past 30 years. The principal products of the City's remaining agricultural sector are dairy operations and citrus.

Tourism

The tourism sector is a significant contributor to the City's economy. The City's hotels, motels, golf courses, parks and playgrounds, restaurants and retail shops provide tourists with accommodations and recreational facilities.

The table below contains a listing of certain hotels located within the City.

HOTELS
City of Mesa, Arizona

Hotel Name	Number of Sleeping Rooms
Phoenix Marriott Mesa	273
Hilton Phoenix East-Mesa	263
Holiday Inn Mesa	246
Dobson Ranch Inn	213
Arizona Golf Resort	187
Hyatt Place Phoenix-Mesa	150
Marriott Courtyard	149
Mezona	132
Country Inn and Suites	126
La Quinta (West)	125
Quality Inn/Suites	120

Source: Mesa Convention and Visitors Bureau.

The City owns and operates the Mesa Convention Center (the "Convention Center") which offers convention facilities. The Convention Center is situated on a 22-acre site adjacent to the Phoenix Marriott Mesa. The Convention Center includes Centennial Hall, which is a multipurpose facility of approximately 15,000 square feet, and the Centennial Conference Center and the Rendezvous Center, which offer an additional 18,500 square feet of meeting space. The City currently operates 58 parks and numerous other sports facilities, including 13 aquatic facilities, 33 baseball/softball fields, 23 football/soccer fields and two golf courses.

The award-winning Mesa Arts Center facility in downtown Mesa opened in spring of 2005. The Mesa Arts Center is a 212,775-square foot performing arts, visual arts and arts education facility, the largest and most comprehensive arts center in the State.

CITY OF MESA, ARIZONA
FINANCIAL DATA

Current Year Statistics (For Fiscal Year 2011/12)
City of Mesa, Arizona

Total General Obligation Bonds Outstanding	$ 283,735,000		(a)
Total Utility Systems Revenue Bonds Outstanding	909,253,330	*	(b)
Total Street and Highway User Revenue Bonds Outstanding	124,685,000		(c)
Total Excise Tax Obligations Outstanding	142,055,000		(d)
Primary Assessed Valuation	$ 3,146,946,536		(e)
Secondary Assessed Valuation	3,164,277,311		(e)
Estimated Full Cash Value	25,508,872,276		(f)

Estimated Net Assessed Values (For Fiscal Year 2012/13) (g)

Primary Assessed Valuation	$2,758,663,543
Secondary Assessed Valuation	2,770,422,084

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* Subject to change.

(a) Represents all general obligation bonds to be outstanding. See “Statements of Bonds Outstanding — General Obligation Bonds to be Outstanding” in this appendix.

(b) Represents all utility systems revenue bonds outstanding. See “Statements of Bonds Outstanding — Utility Systems Revenue Bonds to be Outstanding” in this appendix.

(c) Represents all street and highway user revenue bonds outstanding following issuance of the Bonds. See “Statements of Bonds Outstanding Street and Highway User Revenue Bonds to be Outstanding” in this appendix.

(d) Represents all excise tax obligations of the City outstanding. See “Statements of Bonds Outstanding — Excise Tax Obligations Outstanding” in this appendix.

(e) Arizona legislation divides property taxes into two categories, primary and secondary. Secondary property taxes are those taxes and assessments imposed to pay principal and interest on bonded indebtedness and certain other obligations, those imposed for special districts other than school districts and those imposed to exceed a budget, expenditure or tax limitation pursuant to voter approval. Primary property taxes are all ad valorem taxes other than secondary property taxes. Annual increases in the valuation of certain types of property for primary property tax purposes and the amount of primary property taxes which may be levied in any year are subject to certain limitations. Except for the Property Valuation Protection Option mentioned under “Property Taxes-Ad Valorem Taxes,” such limitations do not apply with respect to secondary property taxes.

(f) Total estimated full cash value is the total market value of the property less unsecured personal property and less estimated exempt property within the City, as projected by the Arizona Department of Revenue, Division of Property and Special Taxes.

(g) Estimated valuations for Fiscal Year 2012/13 provided by the Arizona Department of Revenue. Valuations for Fiscal Year 2012/13 are not official until approved by the Board of Supervisors of the County on the third Monday in August for the following fiscal year. Although the final official valuations are not expected to differ materially from the estimated valuations, they are subject to positive or negative adjustments until approved by the Board of Supervisors of the County.

Source: *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue.

STATEMENTS OF BONDS OUTSTANDING

General Obligation Bonds to be Outstanding (h)
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Refunding	24,840,000	7-1-04/15	$ 5,050,000
2002A	Refunding	40,105,000	7-1-10/16	23,240,000
2003	Various Purpose	22,565,000	7-1-10/22	20,065,000
2004	Refunding	46,445,000	7-1-09/18	46,320,000
2005	Various Purpose	11,705,000	7-1-12/24	11,705,000
2006	Various Purpose	9,710,000	7-1-13/25	9,710,000
2006	Refunding	26,650,000	7-1-11/14	26,500,000
2007	Various Purpose	15,915,000	7-1-19/27	15,915,000
2008	Various Purpose	15,450,000	7-1-09/28	14,300,000
2009	Various Purpose	61,830,000	7-1-10/29	50,745,000
2010	Various Purpose	30,865,000	7-1-20/30	30,865,000
2011	Various Purpose	29,320,000	7-1-12/31	29,320,000
Total General Obligation Bonds Outstanding				$283,735,000
Less the bonds being refunded by the Series 2012 Refunding Bonds (i)				(31,665,000)
Plus the Series 2012 Refunding Bonds (i)				31,665,000
Total General Obligation Bonds to be Outstanding				$283,735,000

(h) Excludes $9,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2006. Excludes $4,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2004. Excludes $8,500,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2002A. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

(i) The City has offered by a separate official statement $31,665,000 principal amount of its General Obligation Refunding Bonds, Series 2012, which is expected to be issued contemporaneously with the Bonds offered herein. The City also expects to issue approximately $34,400,000 principal amount of its General Obligation Bonds, Series 2012 in the second quarter of 2012 by a separate official statement.

Utility Systems Revenue Bonds Outstanding (j)
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding (i)	
1997	Utility Improvement	$ 94,730,000	7-1-12/17	$ 4,000,000	
1998	Refunding	32,500,000	7-1-00/13	125,000	
2002	Utility Improvement	57,950,000	7-1-09/21	6,000,000	
2002	Refunding	129,000,000	7-1-04/17	126,800,000	
2002A	Refunding	48,850,000	7-1-08/17	46,590,000	
2003	Utility Improvement	50,470,000	7-1-10/22	23,000,000	
2004	Refunding	40,345,000	7-1-14/19	40,345,000	
2004	Utility Improvement	64,625,000	7-1-19/28	6,125,000	
2005	Utility Improvement	91,200,000	7-1-19/29	71,200,000	
2006	Utility Improvement	105,400,000	7-1-23/30	87,325,000	
2006	Refunding	61,300,000	7-1-09/21	58,075,000	
2006	Refunding	127,260,000	7-1-12/28	127,260,000	
2007	Utility Improvement	65,550,000	7-1-23/31	65,550,000	
2008	Refunding	21,125,000	7-1-09/18	19,300,000	
2008	Utility Improvement	52,875,000	7-1-23/32	52,875,000	
2009	Utility Improvement	59,900,000	7-1-23/33	59,900,000	
2009	WIFA Loans	3,758,810	7-1-10/29	2,613,330	
2010	Utility Improvement	50,380,000	7-1-34	50,380,000	
2011	Utility Improvement	53,950,000	7-1-35	53,950,000	
Total Utility Systems Revenue Bonds Outstanding				$901,413,330	
Less the bonds being refunded by the Series 2012 Refunding Bonds (Tax-Exempt) (k)				(35,280,000)	
Plus the Series 2012 Refunding Bonds (Tax-Exempt) (k)				31,580,000	
Less the bonds being refunded by the Series 2012 Taxable Refunding Bonds (k)				(65,000,000)	*
Plus the Series 2012 Taxable Refunding Bonds (k)				76,540,000	*
Total Utility Systems Revenue Bonds to be Outstanding				$909,253,330	*

* Subject to change.

(j) Excludes $35,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2006. Excludes $14,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

(k) The City has offered $31,580,000 principal amount of its Utility System Revenue Refunding Bonds, Series 2012 (the "Series 2012 Refunding Bonds (Tax-Exempt)") which is expected to be issued contemporaneously with the Bonds offered herein. In addition, the City expects to issue approximately $76,540,000 principal amount of its Taxable Utility System Revenue Refunding Bonds, Series 2012 (the "Series 2012 Taxable Refunding Bonds") and $62,425,000 principal amount of its Utility Systems Revenue Bonds, Series 2012 in the second quarter of 2012 by separate official statements.

Street and Highway User Revenue Bonds Outstanding (l)
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Street Improvements	$25,800,000	7-1-10/20	$ 1,000,000
2002	Refunding	31,985,000	7-1-04/17	26,455,000
2003	Street Improvements	26,805,000	7-1-10/22	25,800,000
2004	Refunding	17,760,000	7-1-14/18	17,760,000
2004	Street Improvements	9,585,000	7-1-10/23	1,375,000
2005	Refunding	23,800,000	7-1-07/23	23,750,000
2005	Street Improvements	10,225,000	7-1-10/24	10,025,000
2006	Street Improvements	11,675,000	7-1-23/25	11,675,000
2007	Street Improvements	10,675,000	7-1-23/27	10,675,000
Total Street and Highway User Revenue Bonds Outstanding				$128,515,000
Less the Bonds Being Refunded				(39,920,000)
Plus the Bonds				36,090,000
Total Street and Highway User Revenue Bonds to be Outstanding				$124,685,000

(l) Excludes $13,250,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002; and $8,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2004, all of which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2005. Excludes $6,750,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002, which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2004. Excludes $3,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002, which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2009	Highway Project Advancement Notes	$ 20,000,000	7/1/2015	$ 20,000,000
2010	Highway Project Advancement Notes	25,000,000	7/1/2016	25,000,000
2011A	Highway Project Advancement Notes	77,835,000	7/1/2017-21	77,835,000
2012	Phoenix-Mesa Gateway Airport Authority	19,220,000	7/1/14-38	19,220,000
Total Excise Tax Obligations Outstanding				$142,055,000

Direct General Obligation Bonded Debt, Legal Limitation and Unused General Obligation Bonding Capacity (m)
City of Mesa, Arizona

The Arizona Constitution provides that the general obligation bonded indebtedness for a city for general municipal purposes may not exceed six percent of the secondary assessed valuation of the taxable property in that city. In addition, an incorporated city may become indebted in an amount not exceeding an additional twenty per cent of the of the secondary assessed valuation of the city for supplying such city with water, artificial light, or sewers, when the works for supplying such water, light, or sewers are or shall be owned and controlled by the municipality, and for the acquisition and development by the city of land or interests therein for open space preserves, parks, playgrounds and recreational facilities, public safety, law enforcement, fire and emergency services facilities and streets and transportation facilities.

General Municipal Purpose Bonds		Water, Light, Sewer, Open Space, Parks, Streets and Public Safety Bonds	
Total 6% General Obligation Bonding Capacity	189,856,638	Total 20% General Obligation Bonding Capacity	$632,855,462
Less 6% General Obligation Bonds Outstanding	(5,325,517)	Less 20% General Obligation Bonds Outstanding	(278,409,483)
Net 6% General Obligation Bonding Capacity	$184,531,121	Net 20% General Obligation Bonding Capacity	$354,445,979

(m) General obligation bonding capacity is calculated using the City's fiscal year 2011/12 secondary assessed valuation of $3,164,277,311.

Other Indebtedness
City of Mesa, Arizona

The City has other obligations which are payable from various City funds, including purchase obligations, lease obligations and other contractual commitments. For additional information with respect to such obligations, please refer to Note 6 of the City's Audited Financial Statements For The Year Ended June 30, 2011, contained in APPENDIX C of this Official Statement.

Direct and Overlapping General Obligation Bonded Debt to be Outstanding
City of Mesa, Arizona

Overlapping Jurisdiction	General Obligation Bonded Debt (o)	Portion Applicable to City of Mesa (n): Approximate Percentage	Portion Applicable to City of Mesa (n): Net Debt Amount
State of Arizona	None	5.12 %	None
Maricopa County (p)	None	8.16	None
Maricopa Community College District (q)	$ 671,250,000	8.16	$ 54,774,000
East Valley Institute of Technology District No. 401	None	18.86	None
Mesa Unified School District No. 4	244,095,000	86.01	209,946,110
Tempe Elementary School District No. 3	129,200,000	0.53	684,760
Tempe Union High School District No. 213	62,560,000	0.23	143,888
Gilbert Unified School District No. 41	170,450,000	25.28	43,089,760
Queen Creek Unified School District No. 95	42,010,000	27.50	11,552,750
Higley Unified School District No. 60	64,905,000	1.52	986,556
City of Mesa (r)	283,735,000	100.00	283,735,000
Total Direct and Overlapping General Obligation Bonded Debt Outstanding			$604,912,824

Source: The various entities.

(n) Proportion applicable to the City is computed on the ratio of secondary assessed valuation as calculated for fiscal year 2011/12 for the overlapping jurisdiction to the amount of such valuation which lies within the City.

(o) Includes total general obligation bonds outstanding less redemption funds on hand. Does not include authorized but unissued general obligation bonds of such jurisdictions which may be issued in the future.

Overlapping Jurisdiction	General Obligation Bonds Authorized but Unissued
Maricopa County Community College	$151,193,000
Mesa Unified School District No. 4	8,500,000
Gilbert Unified School District No. 41	12,000,000
Higley Unified School District No. 60	71,475,000
Tempe Elementary School District No. 3	37,560,000
Queen Creek Unified School District No. 95	6,7350,000
City of Mesa	116,421,000

Also does not include the obligation of the Central Arizona Water Conservation District ("CAWCD") to the United States Department of the Interior (the "Department of the Interior"), for repayment of capital costs for construction of the Central Arizona Project ("CAP"), a major reclamation project that has been substantially completed by the Department of the Interior. The obligation is evidenced by a master contract between CAWCD and the Department of the Interior. In April 2003, the United States and CAWCD agreed to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payment of the operation, maintenance and replacement costs and the application of certain revenues and credits against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.646 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 667,724 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of CAP at no additional cost to CAWCD. Of the $1.646 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be fixed for the entire 50-year repayment period, which commenced October l, 1993. Effectiveness of the agreement was subject to a number of conditions including settlement of certain Indian community water claims and other water claims and required certain Arizona legislation. All of the conditions have been met and the agreement was deemed effective by a final judgment issued by the U.S. District Court on November 21, 2007. CAWCD is a multi-county water conservation district having boundaries coterminous with the exterior boundaries of Arizona's Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of the CAP and to assist in the repayment to the United States of the CAP capital costs. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of CAP water) and a tax levy against all taxable property within CAWCD's boundaries. At the date of this Official Statement, the tax levy is limited to 14 cents per $100 of secondary assessed valuation, of which ten cents is being levied. (See Arizona Revised Statutes, Sections 45-3715 and 48-3715.02.) There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract.

Does not include the obligation of the Maricopa County Flood Control District to contribute $70 to $80 million to the CAP. The Maricopa County Flood Control District's sole source of revenue to pay the contribution will be ad valorem taxes on real property and improvements.

(p) Does not include Public Finance Corporation Lease Revenue Bonds outstanding in the aggregate principal amount of $143,253,980. Does not include Stadium District Revenue Bonds outstanding in the aggregate principal amount of $37,905,000.

(q) Does not include Revenue Bonds outstanding in the aggregate principal amount of $12,585,000.

(r) Does not include the City's utility systems revenue bonds outstanding in the aggregate principal amount of $914,517,810.

Does not include the City's street and highway user revenue bonds outstanding in the aggregate principal amount of $134,545,000.

Does not include the City's excise tax obligations outstanding in the aggregate principal amount of $45,000,000. Such obligations are secured and payable from a pledge of the City's transaction privilege tax revenues and certain other general fund revenues.

Does not include various City special assessment bonds outstanding in the aggregate principal amount of $6,141,000.

Direct and Overlapping General Obligation Bonded Debt Ratios
City of Mesa, Arizona

		As a Percentage of City's	
	Per Capita Bonded Debt Population at 441,160 (s)	2011/12 Secondary Assessed Valuation	2011/12 Estimated Full Cash Value
Direct General Obligation Bonded Debt	$ 643.16	8.97 %	1.11 %
Direct and Overlapping General Obligation Debt	1,371.19	19.12	2.37

(s) Arizona Department of Administration, Office of Employment and Population Statistics, estimate as of July 1, 2011.

Retirement Plans and Other Post Employment Benefits
City of Mesa, Arizona

The City contributes to three separate defined benefit pension plans for the benefit of all general employees of the City and elected officials. Please refer to APPENDIX C – "Audited General Purpose financial Statements for the Fiscal Year Ended June 30, 2011" for a more detailed description of these plans and the City contributions to the various plans.

The Arizona State Retirement System ("ASRS"), a cost-sharing, multiple employee defined benefit plan in which the City participates, has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: https://www.azasrs.gov/web/FinancialReports.do. The board for the ASRS has adopted contribution rates for fiscal year 2012 and 2013. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 11.39% (11.13% retirement and .26% long-term disability) of the members' annual covered payroll. The City was required by statute to contribute at the actuarially determined rate of 10.10% (9.24% for retirement and .63% for health insurance premium, and .23% long-term disability) of the members' annual covered payroll. For fiscal year 2012 (starting July 1, 2012), the rate, including retirement and long-term disability, will increase to 10.48% for the City and increase to 11.81% for employees, with additional increases currently scheduled through fiscal year 2018. The increase in the ASRS's unfunded liabilities is expected to result in increased contributions by the City and its employees, however the specific effects cannot be determined at this time. The City's contributions to the ASRS for fiscal years 2011 and 2010 were $13.35 million and $13.13 million, respectively, both of which were equal to the required contributions for the year.

Additionally, recently enacted State legislation also made changes to how the ASRS operates, which includes, effective July 1, 2011, requiring employers to pay an alternative contribution rate for retired ASRS employees that return to work, changing the age at which an employee can retire without penalty based upon years of service, limiting permanent increases in retirement benefits and establishing a Defined Contribution and Retirement Study Committee (as defined in the legislation) that will review the feasibility and cost to changing the current defined benefit plan to a defined contribution plan.

The contribution split to ASRS effective July 1, 2011 (explained above) is being challenged by the Arizona Education Association, the American Federation of State, County and Municipal Employees, and the American Federation of Teachers. These groups filed a lawsuit on July 14, 2011 on behalf of seven plaintiffs alleging that the shift in contribution levels cannot be applied to employees who are already participating in the System under a theory that it violates the Arizona Constitution and contract law. On February 1, 2012, the Maricopa County

Superior Court ruled that the law changing the contribution split the current members of the ASRS make to their pension fund is unconstitutional. It is unknown at this time if the ASRS will appeal the decision. Currently the State legislature is considering House Bill 2264, which would return the ASRS to the previous funding system of a 50-50 split between the State and the members of the ASRs. It is unknown at this time whether House Bill 2264 or similar law will become law.

Beginning with the Fiscal Year that commenced on July 1, 2008, the City implemented GASB 45, *Accounting by Employers for Other Post Employment Benefits (OPEB),* which will require the City to report the actuarially accrued cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. GASB 45 will require that such benefits be recognized as current costs over the working lifetime of employees, and to the extent such costs are not prefunded, GASB 45 will require the reporting of such costs as a financial statement liability. Under GASB 45, the City will be required to commission an actuarial valuation of its OPEB costs every two years. City contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in net OPEB costs, which under GASB 45 will be required to be recorded as a liability in the City's financial statements.

The City provides post-retirement health care benefits to all retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2011, approximately 1,505 former employees and beneficiaries were eligible for these benefits. Other Post Employment Benefits costs incurred by the City in fiscal year 2011 were $16.8 million for health care costs for retired employees. This cost represents actual claims paid for retirees under the self-insurance program and premiums paid to the vision care provider; net of contributions received from retirees and retirement systems. See Note 5 – Post Employment Benefits on page 63 of the City's audited financial statements for fiscal year 2010/11 presented in APPENDIX C.

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost and the related information for the plan are as follows at June 30, 2011:

Annual Required Contribution	$ 83,522,342
Interest on Net OPEB Obligation	8,316,126
Adjusted to Annual Required Contribution	(11,345,329)
Annual OPEB Cost	80,493,139
Contributions Made	13,494,020
Increase in Net OPEB Obligation	66,999,119
Net OPEB Obligation - Beginning of Year	185,022,650
Net OPEB Obligation - End of Year	$252,021,769

The City's net OPEB obligation as of June 30, 2011 was $252,021,769. Contributions for fiscal year 2010/11 were $13,494,020.

Beginning January 1, 2009, all new hires are ineligible for coverage under the City's self-insured health plan.

APPENDIX C

CITY OF MESA, ARIZONA

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council of the
City of Mesa, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A prior period adjustment was recorded, as described in Note 2, to restate the governmental activities beginning net assets for an error in the previously reported financial statements related to depreciation expense calculated on capital leases. Business-type activities beginning net assets were restated for an error in the previously issued financial statements related to an error in recording joint venture activity.

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011, which represents a change in accounting principle.

The Honorable Mayor and the City Council of the
City of Mesa, Arizona

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 17, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 86, the Other Postemployment Benefit Plan Schedule of Funding Progress on page 87, and budgetary comparison information on pages 88 through 90 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, supplemental information, introductory section and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining and individual nonmajor fund financial statements and supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
December 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Mesa, Arizona (the City), we offer this discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. This discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activities, 3) identify changes in the City's financial position, 4) identify any material deviations from the financial plan (the approved annual budget), and 5) identify individual fund issues and concerns.

The management's discussion and analysis should be read in conjunction with the transmittal letter presented on pages V-X, as well as the financial statements beginning on page 18 and the accompanying notes to the financial statements.

Financial Highlights

- The City's total net assets decreased $69 million in fiscal year 2011.
- Total net assets of the City are $1.65 billion, of which $252 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of fiscal year 2011, the City's governmental funds reported a combined ending fund balance of $235.8 million, a $1.6 million increase from the previous year. A complete reconciliation of the governmental funds' fund balance to the governmental activities' net assets is on page 22.
- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was $93.9 million, or 29% of total General Fund expenditures.
- The City issued $29.3 million in general obligation debt during the current fiscal year for new street and public safety improvement projects
- The City issued $53.9 million in utility system revenue debt during the current fiscal year for electric, gas, water and wastewater improvement projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements (pages 18–20) are designed to provide a broad overview of the City's finances in a manner similar to private businesses. All the activities of the City, except fiduciary activities, are included in these statements.

The *statement of net assets* presents information on all the City's assets and liabilities, with the difference between the two being reported as *net assets*. Over time increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed over the most recent fiscal year. All changes to net assets are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also focuses on both the gross and net costs of the various functions of the City, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general revenues for support.

The activities of the City are presented in two columns on these statements – governmental activities and business-type activities. A total column for the City is also provided.

- The *governmental activities* include the City's basic services including general government (administration), public safety, cultural-recreational, and community environment. Taxes and general revenues generally support these activities.

- The *business-type activities* include private sector type activities such as the City-owned electric, gas, water, wastewater and solid waste systems, as well as the City-owned airport, golf courses, stadiums, convention center and district cooling. These activities are primarily supported by user charges and fees.

The City restated the beginning net assets for the governmental-type activities due to an error in calculating the depreciation expense for a capital lease for fiscal year 2009 and fiscal year 2010. This resulted in an increase to beginning net assets of $6.6 million. See Note 2 to the basic financial statements for additional details of this restatement.

The City restated the beginning net assets for the business-type activities due to errors in calculating the joint venture expenses from prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 to the basic financial statements for additional details of this restatement.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of the City. Traditional fund financial statements are presented for governmental funds, proprietary funds and fiduciary funds. These fund financial statements now focus on major funds of the City, rather than fund types used in the previous financial reporting model.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements (pages 21-24) focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer-term focus, a reconciliation of the differences between the two is provided with the fund financial statements and also in Note 3 to the basic financial statements (pages 53-58).

For the fiscal year ended June 30, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54- *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement changed the previous reporting of Reserved and Unreserved fund balance to five new classifications, which are Nonspendable, Restricted, Committed, Assigned and Unassigned. This statement also added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types. See Note 1 p and Note 2 to the financial statements for additional detail.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet support; materials and supplies; printing and graphics; and the property and public liability; workers' compensation and employee benefits self-insurance programs. Since the primary customers of the internal service funds are the governmental activities, the assets and liabilities of those funds are included in the governmental activities column of the government-wide statement of net assets. The costs of internal service funds are allocated to the various user functions on the government-wide statement of activities. The proprietary fund financial statements (pages 25–30) are prepared on the same long-term focus as the government-wide financial statements. The enterprise funds provide the same information as the government-wide financial statements, only with more detail. The internal service funds are combined into a single column on the proprietary funds statements. Additional detail of the internal service funds can be found in the combining statements (pages 105-110).

The City restated the beginning net assets for the Enterprise Fund due to errors in calculating the joint venture expenses that occurred in prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 for additional details of this restatement.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of others outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's programs. The fiduciary fund financial statement (page 31) is prepared on the same basis as the government-wide and proprietary fund financial statements.

Notes to the financial statements – The notes to the financial statements (pages 32–85) provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Other information – Governments have an option of including the budgetary comparisons statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements or as required supplementary information after the notes to the financial statements. The City has chosen to present these budgetary statements as required supplementary information beginning on page 88.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2011 and as of and for the year ended June 30, 2010.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2011 and 2010.

Condensed Statement of Net Assets
As of June 30
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	Percent
Cash and Other Assets	$ 426,059	$ 428,176	$ 464,539	$ 449,421	$ 890,598	$ 877,597	$ 13,001	1.48
Capital Assets	1,279,788	1,269,292	1,302,381	1,289,921	2,582,169	2,559,213	22,956	0.90
Total Assets	1,705,847	1,697,468	1,766,920	1,739,342	3,472,767	3,436,810	35,957	1.05
Non-current Liabilities,								
Outstanding	691,599	639,725	953,975	900,502	1,645,574	1,540,227	105,347	6.84
Other Liabilities	109,026	115,715	68,505	61,677	177,531	177,392	139	0.08
Total Liabilities	800,625	755,440	1,022,480	962,179	1,823,105	1,717,619	105,486	6.14
Net Assets:								
Invested in Capital Assets,								
Net of Related Debt	872,302	851,422	430,436	458,447	1,302,738	1,309,869	(7,131)	(0.54)
Restricted	39,296	86,955	55,873	47,011	95,169	133,966	(38,797)	(28.96)
Unrestricted	(6,376)	3,651	258,131	271,298	251,755	274,949	(23,194)	(8.44)
Total Net Assets	$ 905,222	$ 942,028	$ 744,440	$ 776,756	$ 1,649,662	$ 1,718,784	$ (69,122)	(4.02)

In the case of the City, the combined net assets (governmental activities and business-type activities) exceeded liabilities by $1.65 billion at the close of the most recent year.

The net assets decreased $69 million (4%) in fiscal year 2011. The governmental activities decreased $37 million, after restatement, while the business-type activities decreased $32 million, after restatement.

The largest portion of net assets (79%) reflects the City's investment in capital assets (land, buildings, equipment, infrastructure, etc.) less any outstanding related debt used to acquire those assets. 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.

$95 million of the City's net assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net assets of $252 million may be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets

The following table shows the revenues and expenses of the City for the fiscal years ended June 30, 2011 and 2010.

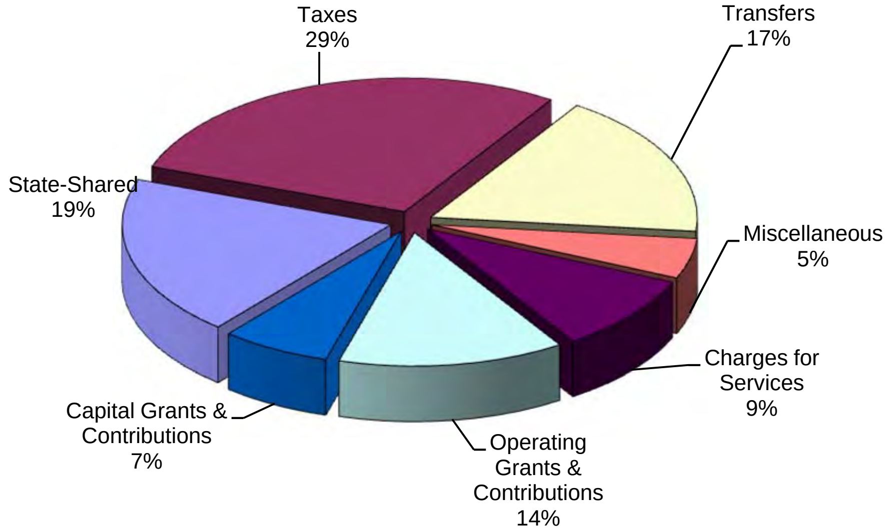
Changes in Net Assets
(In thousands of dollars)

	Governmental Activities 2011	Governmental Activities 2010 As Restated	Business-type Activities 2011	Business-type Activities 2010 As Restated	Total Primary Government 2011	Total Primary Government 2010 As Restated	Change Dollars	Change Percent
REVENUES								
Program Revenues:								
Charges for Services	$ 44,710	$ 42,386	$ 299,473	$ 289,374	$ 344,183	$ 331,760	$ 12,423	3.74 %
Operating Grants & Contributions	65,284	72,812	25	210	65,309	73,022	(7,713)	(10.56)
Capital Grants & Contributions	31,461	30,343	10,774	17,782	42,235	48,125	(5,890)	(12.24)
General Revenues:								
Sales Taxes	121,046	121,557	-	-	121,046	121,557	(511)	(0.42)
Property Taxes	14,244	14,318	-	-	14,244	14,318	(74)	(0.52)
Occupancy Taxes	2,148	1,581	-	-	2,148	1,581	567	35.86
Unrestricted State-Shared	92,613	104,581	-	-	92,613	104,581	(11,968)	(11.44)
Contributions	15,611	14,757	-	-	15,611	14,757	854	5.79
Unrestricted Investment Income	617	261	839	508	1,456	769	687	89.34
Miscellaneous	7,060	13,846	-	-	7,060	13,846	(6,786)	(49.01)
Total Revenues	394,794	416,442	311,111	307,874	705,905	724,316	(18,411)	(2.54)
EXPENSES								
Governmental Activities:								
General Government	59,552	54,863	-	-	59,552	54,863	4,689	8.55 %
Public Safety	273,320	285,607	-	-	273,320	285,607	(12,287)	(4.30)
Cultural-Recreational	54,549	54,010	-	-	54,549	54,010	539	1.00
Community Environment	106,434	104,096	-	-	106,434	104,096	2,338	2.25
Interest on Long-term Debt	21,078	20,013	-	-	21,078	20,013	1,065	5.32
Business-type Activities:								
Electric	-	-	26,816	27,106	26,816	27,106	(290)	(1.07)
Gas	-	-	36,020	35,466	36,020	35,466	554	1.56
Water	-	-	82,378	80,915	82,378	80,915	1,463	1.81
Wastewater	-	-	63,614	64,262	63,614	64,262	(648)	(1.01)
Solid Waste	-	-	31,462	31,504	31,462	31,504	(42)	(0.13)
Airport	-	-	3,972	3,944	3,972	3,944	28	0.71
Golf Course	-	-	2,679	2,715	2,679	2,715	(36)	(1.33)
Convention Center	-	-	3,849	4,158	3,849	4,158	(309)	(7.43)
Hohokam Stadium/Fitch Complex	-	-	8,324	7,408	8,324	7,408	916	12.37
Cubs Stadium	-	-	15	-	15	-	15	100.00
District Cooling	-	-	965	1,000	965	1,000	(35)	(3.50)
Total Expenses	514,933	518,589	260,094	258,478	775,027	777,067	(2,040)	(0.26)
Increase (decrease) in Net Assets Before Transfers	(120,139)	(102,147)	51,017	49,396	(69,122)	(52,751)	(16,371)	31.03
Transfers	83,333	65,433	(83,333)	(65,433)	-	-	-	0.00
Change in Net Assets	(36,806)	(36,714)	(32,316)	(16,037)	(69,122)	(52,751)	(16,371)	31.03
Net Assets-Beginning, as Restated	942,028	978,742	776,756	792,793	1,718,784	1,771,535	(52,751)	(2.98)
Net Assets-Ending	$ 905,222	$ 942,028	$ 744,440	$ 776,756	$ 1,649,662	$ 1,718,784	$ (69,122)	(4.02)

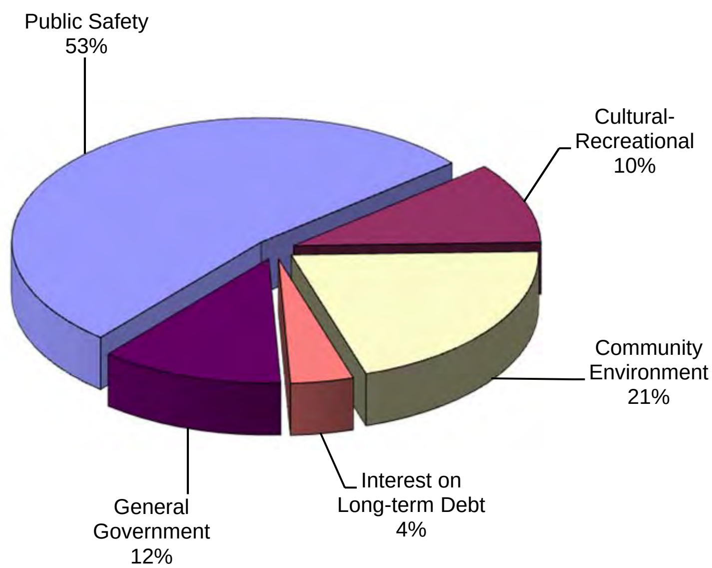
Governmental Activities

As presented in the following two graphs, the largest funding sources, including transfers, for the governmental activities are taxes (29%) and state-shared revenues (19%). The largest users of resources for the governmental activities are Public Safety (53%), Community Environment (21%), General Government (12%), and Cultural-Recreational (10%).

Revenues by Source Including Transfers – Governmental Activities
For the Fiscal Year Ended June 30, 2011

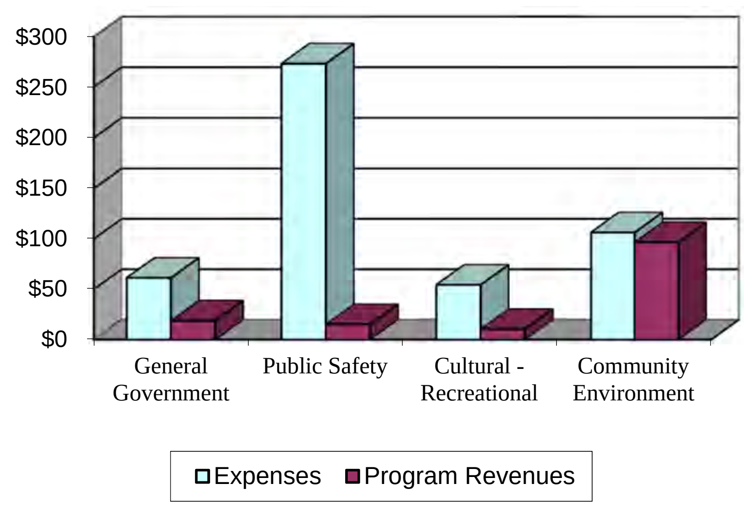


Functional Expenses – Governmental Activities
For the Fiscal Year Ended June 30, 2011



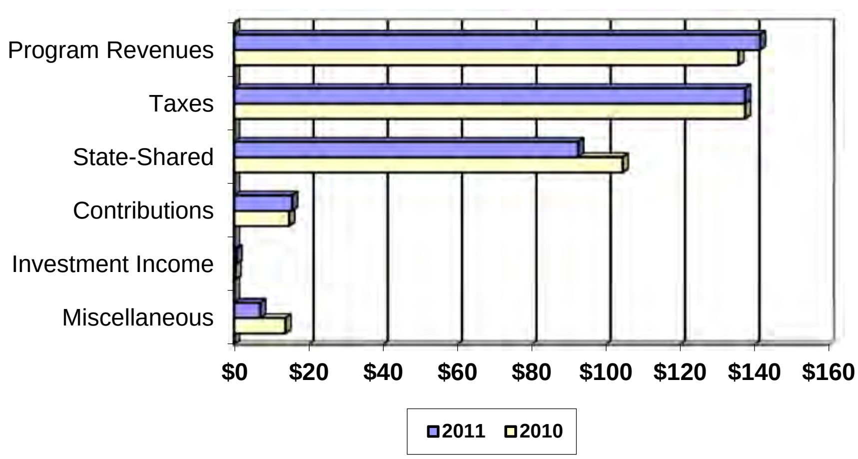
The following graph shows the functional revenues and expenses of the governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this is not intended to represent the full cost allocation to these functions. General revenues of the City, including an $83.3 million transfer from the business-type activities, cover expenses not generated by direct program revenues.

Expenses and Program Revenues – Governmental Activities
For the Fiscal Year ended June 30, 2011
(In millions of dollars)



Governmental activities decreased the net assets of the City by $37 million accounting for a 3.9% decrease. Governmental activities accounted for 56% of the total revenues and 66% of the total expenses of the City in fiscal year 2011. This compares to 57% of total revenues and 66% of the total expenses in fiscal year 2010.

Governmental Activities Revenues
For Fiscal Years 2011 and 2010
(In millions of dollars)



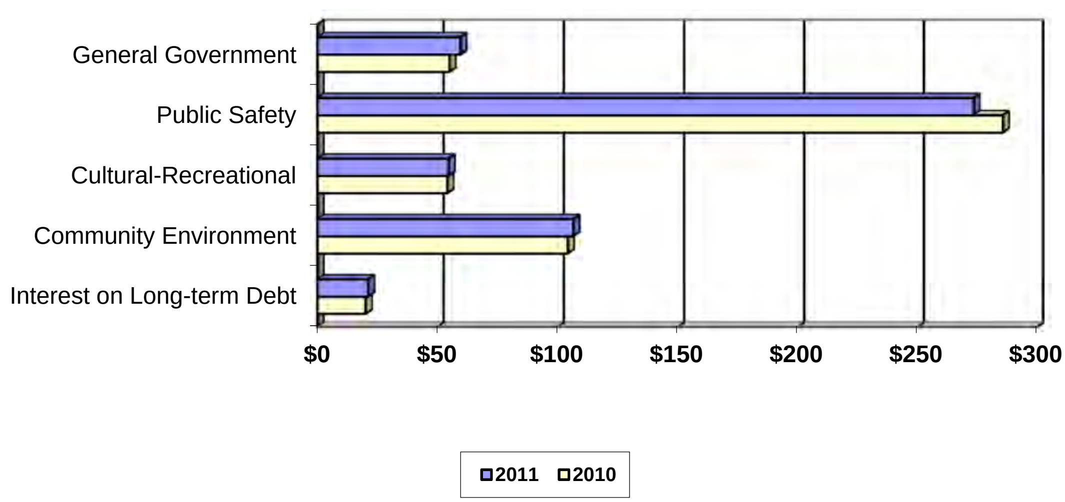
The graph above compares governmental activities revenues from fiscal year 2011 to fiscal year 2010. Total governmental activities revenues decreased $21.6 million from $416.4 million to $394.8 million. This is the fourth consecutive year that governmental activities revenues declined. Key factors in this change include:

- The program revenues (charges for services, grants and contributions that are clearly identifiable to an operating activity) of the governmental activities decreased $4 million over the previous year. There was a $2.4 million decrease in the amount of capital contributions of streets, storm sewers and retention basins by developers over the previous year. These capital contributions are not cash revenues and therefore are not available to cover operating expenses. Operating grants and contributions decreased by $7.5 million over the previous year due to decreased federal funding resulting from the American Reinvestment and Recovery Act of 2009.

- Sales taxes decreased by only $0.5 million over the previous year reflecting some stability is returning to the local economy after decreasing by $5 million in the previous fiscal year.

- State shared revenues decreased by $12.0 million over the previous year because of reduced revenues received from the state.

Governmental Activities Functional Expenses
For Fiscal Years 2011 and 2010
(In millions of dollars)



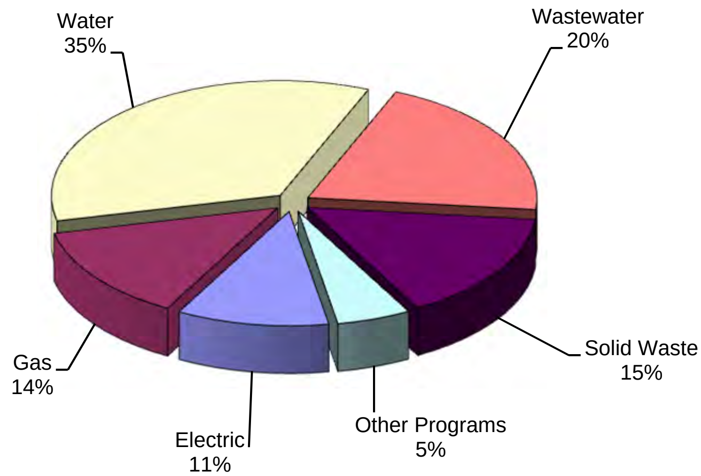
The graph above compares governmental activities expenses from fiscal year 2011 to fiscal year 2010. Total governmental expenses decreased by $3.7 million from $518.6 million, as restated to $514.9 million. Key factors in this change include:

- The changes in the General Government and Public Safety functions resulted from depreciation adjustments relating to useful life and in-service dates.

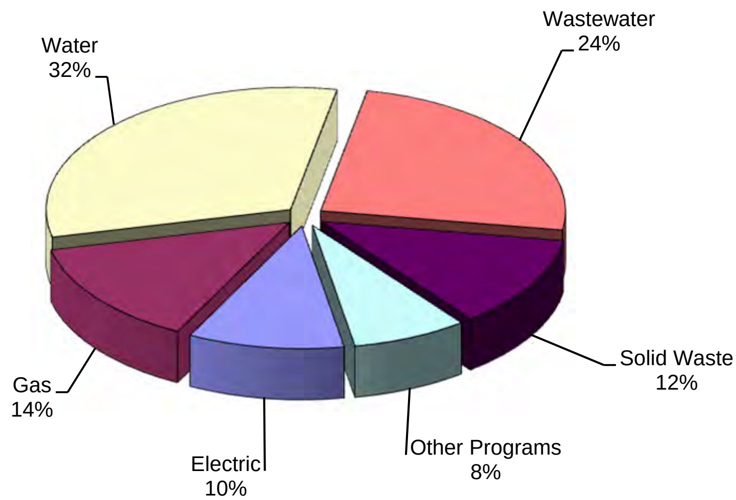
Business-type Activities

As presented in the following two graphs, the largest funding sources and users of resources for the business-type activities are Water, Wastewater, Solid Waste, Gas and Electric.

Revenues by Source – Business-type Activities

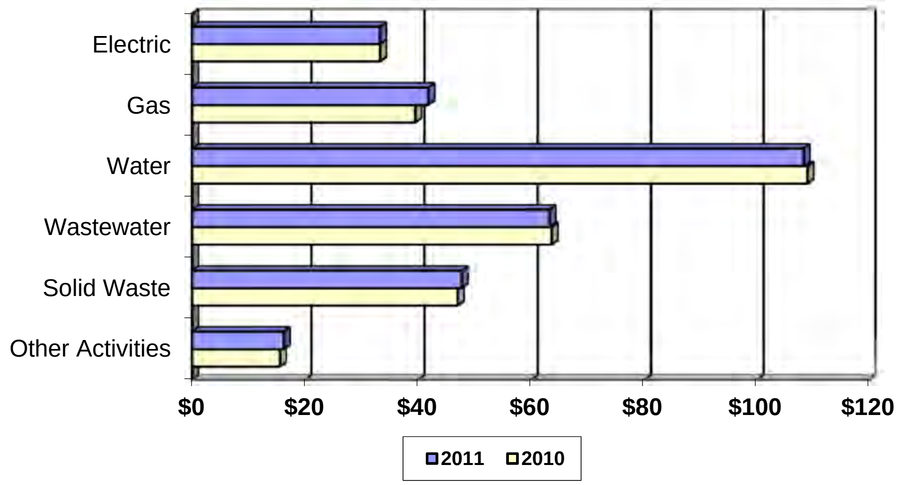


Functional Expenses – Business-type Activities



Business-type activities decreased the City's net assets by $32 million. Total business-type activities program and general revenues increased by $3.2 million (1%) from $307.9 million to $311.1 million, while the business-type activities total expenses increased by $1.6 million from $258.5 million, as restated to $260.1 million. Business-type activities accounted for 44% of the total revenues and 34% of the total expenses of the City in fiscal year 2011. This compares to 43% of total revenues and 34% of the expenses in fiscal year 2010.

Business-type Activities
Program Revenues
For Fiscal Years 2011 and 2010
(In millions of dollars)

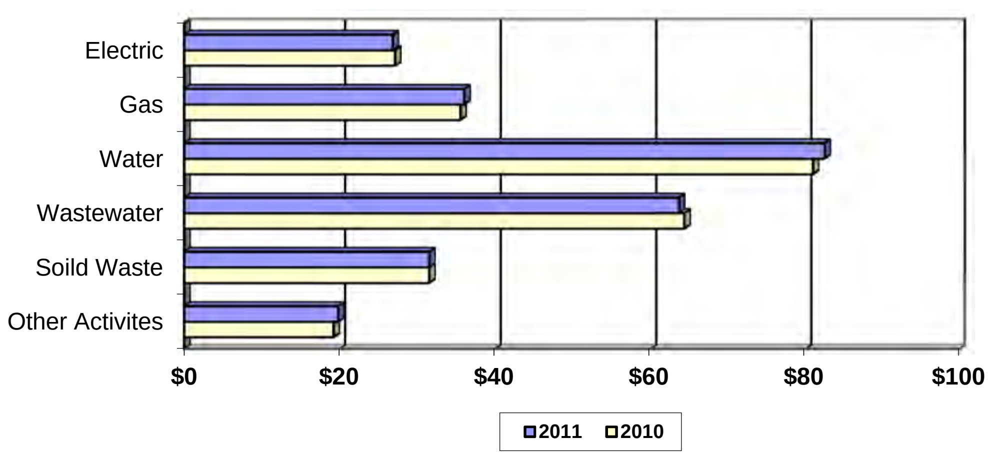


The graph above compares program revenues for the Business-type Activities from fiscal year 2011 to fiscal year 2010. Total business-type activities program revenues increased by $2.9 million (0.9%) from $307.4 million to $310.3 million. Key factors in this change include:

- Capital contributions decreased by $7.0 million from the previous year and, while they continue to be a major revenue source for the business-type activities, the amount contributed each year is dependent on how well the construction activity in the City is performing.

- Charges for Services increased $10.1 million reflecting increases in the rate structure and usage. All commodity cost increases in the Electric and Gas utilities are passed through to the customers.

Business-type Activities
Functional Expenses
For the Fiscal Years 2011 and 2010



- The transfer to the General Fund increased by $17.9 million over the previous fiscal year. This transfer is used by the governmental activities programs to cover expenses not generated by direct program revenues.

Financial Analysis of the City's Funds

As previously mentioned, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is a brief discussion of the financial highlights from the fund financial statements.

Governmental Funds - The focus of the City's governmental funds (pages 21-24) is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported combined ending fund balance of $235.8 million, a $1.6 million increase from the previous year. $93.9 million of this total amount is in unassigned fund balance, available for spending in the coming year. The remainder of fund balance includes $114.5 million in restricted fund balance, $24.1 million in committed find balance and $3.3 million in nonspendable fund balance. See Note 1 p. to the basic financial statements for additional detail on these fund balance amounts.

The General Fund is the chief operating fund of the City and accounts for many of the major functions of the government including general government, public safety, cultural-recreational and community environment services. At the end of the current fiscal year, total fund balance of the General Fund was $101.2 million, while unassigned fund balance was $93.9 million.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. For 2011, unassigned fund balance represents 29.4% of total General Fund expenditures of $319 million, while total fund balance represents 31.7% of the same amount.

Total fund balance of the City's General Fund decreased by $6.2 million during the current fiscal year from $107.4, as restated, to $101 million. Total revenues of $256 million were $62 million less than the previous year, however approximately $45 million of this difference is due to the reclassification of funds and property tax revenue due to the implementation of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* State-shared revenue reported in the General Fund was $13 million less than the prior fiscal year.

Total expenditures of $319 million were $31 million less than the previous year, however approximately $22 million of this difference is due to the reclassification of funds and property tax revenue due to the implementation of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. See Note 1 to the financial statements for additional detail on this new GASB standard. Capital outlay expenditures increased $4.7 million from the prior fiscal year.

The transfer in of $83.6 million, mostly from the Enterprise Fund, was reduced by $26.9 million in transfers out to other funds, compared with a transfer in from the Enterprise Fund of $85.5 million that was reduced by $47 million in transfers out to other funds in the previous year.

The Highway User Revenue Fund that accounts for the capital and maintenance costs for the City's streets received $246 thousand more in state-shared revenue and had an increase of $13 million in street-related expenditures.

The City's Capital Project Funds that account for the acquisition and construction of major capital facilities other than those reported in the proprietary funds reported a decrease of $25.9 million in capital expenditures. These expenditures were for improvements in law enforcement, fire, storm sewers, streets, parks and other city facilities. Included in these expenditures are $200 thousand in Vehicle Replacement Fund expenditures that was reclassified from the Special Revenue Funds due to GASB Statement No. 54. See Note 1 p. and Note 2 of the basic financial statements for additional details.

Proprietary Funds - The City's Enterprise Fund (pages 25-30) provides the same type of information as the government-wide financial statements, except in more detail. The City restated the beginning net assets for the Enterprise Fund due to errors in calculating the joint venture expenses that occurred in prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 of the basic financial statements for additional details of this restatement.

The total net assets of the Enterprise Fund decreased by $31.7 million in fiscal year 2011 from $778.9 million, after restatement, in fiscal year 2010 to $747.2 million. The unrestricted net assets of the Enterprise Fund amounted to $211.3 million. Other factors concerning the finances of the Enterprise Fund have already been addressed in the discussion on the City's business-type activities.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison schedules are required for the General Fund and major special revenue funds and may be found on pages 88-90. These schedules compare the original adopted budget, the budget as amended throughout the year, and the actual expenditures prepared on a budgetary basis. Budgetary schedules for the other governmental funds as well as the proprietary funds are also presented on pages 112-138.

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see Note 1.r. and Note 1.s. of the notes to the financial statements for more information on budget policies). No amendments increasing the City's total adopted budget of $1.113 billion occurred during fiscal year 2011. Contingency allocations were made at fiscal year-end to cover programs in the General Fund of $3.6 million.

General Fund revenues of $270.5 million, on a budgetary basis, were less than budgeted revenues of $287.9 million by $17.4 million while expenditures of $352.2 million were only 81% of budgeted expenditures. The shortfall in revenues is due to lower revenue received in sales taxes and intergovernmental revenue. Sales taxes continued to be less than budgeted, however, they appear to have stabilized. Federal grant revenues were less than budgeted however, since the majority of the Federal grants are on a reimbursement basis, the City also did not have the associated expenditures. Reduced expenditures resulted from the continuation of a hiring freeze and unused contingency allocations.

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business-type activities amounts to $2.6 billion (net of accumulated depreciation/amortization) as of June 30, 2011. This investment in capital assets includes land, buildings, other improvements, machinery and equipment, intangibles and infrastructure. Infrastructure assets are items that are normally immovable and have value only to the City, such as streets, street lighting systems and storm drainage systems.

The following table provides a breakdown of the City's capital assets at June 30, 2011 and 2010.

Capital Assets
(net of accumulated depreciation/amortization)
As of June 30
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	Percent
Land	$ 265,803	$ 261,771	$ 58,803	$ 59,947	$ 324,606	$ 321,718	$ 2,888	0.90 %
Water Rights	-	-	12,761	17,570	12,761	17,570	(4,809)	(27.37)
Buildings	232,855	239,228	36,530	60,266	269,385	299,494	(30,109)	(10.05)
Other Improvements	147,205	82,990	133,904	969,620	281,109	1,052,610	(771,501)	(73.29)
Machinery & Equipment	44,884	48,391	128,512	53,262	173,396	101,653	71,743	70.58
Intangibles	14	15	3,920	4,219	3,934	4,234	(300)	(7.09)
Infrastructure	499,485	498,342	814,481	6,879	1,313,966	505,221	808,745	160.08
Construction-in-Progress	89,542	138,555	113,470	118,158	203,012	256,713	(53,701)	(20.92)
Total	$ 1,279,788	$ 1,269,292	$ 1,302,381	$ 1,289,921	$ 2,582,169	$ 2,559,213	$ 22,956	0.90

Major capital assets completed or constructed during the current fiscal year included:

- The City continued construction of the South Central Arizona Project Water Treatment Plant with $1.2 million spent during fiscal year 2011. The $87.7 million facility will serve the growing southeast area of the City. The plant will have an initial capacity of 24 million gallons a day with the ability to expand to 48 million gallons a day.

- The City started an implementation of an Enterprise Resource Planning (ERP) system with $7.1 million spent during fiscal year 2011. The ERP system will replace the current Human Resources/Payroll and Financial applications in the City. The $24.7 million project will have a final implementation on January 1, 2013.

Additional information on the City's capital assets can be found in Note 1 l of the notes to the financial statements.

Debt Administration - At the end of the current fiscal year, the City had total bonded debt outstanding of $1.293 billion. Of this amount, $281 million comprises debt backed by the full faith and credit of the City and $1.012 billion represents bonds secured by specified revenue sources (i.e., Utility System Revenue Bonds and Highway User Revenue Bonds).

The City's outstanding long-term debt, including bonds, capital leases and notes payable was $1.348 billion at June 30, 2011. $458 million of this total was in governmental activities and

$890 million was in business-type activities. The City's outstanding long-term debt (considering new borrowings, debt retirements and refunding) increased $41 million. New borrowings during the fiscal year included $29.3 million in general obligation bonds and $53.9 million in utility system revenue bonds.

The following schedule shows the outstanding long-term debt of the City as of June 30, 2011 and 2010.

Outstanding Long-term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Change	
	2011	2010	2011	2010	2011	2010	Dollars	Percent
General Obligation Bonds	$ 279,028	$ 270,593	$ 2,210	$ 2,672	$ 281,238	$ 273,265	$ 7,973	2.92 %
Utility System Revenue Bonds	-	-	884,995	841,864	884,995	841,864	43,131	5.12
Highway User Revenue Fund Bonds	126,573	132,220	-	-	126,573	132,220	(5,647)	(4.27)
Special Assessment Bonds with Governmental Commitment	5,806	6,550	-	-	5,806	6,550	(744)	(11.36)
Capital Leases	2,166	5,406	-	-	2,166	5,406	(3,240)	(59.93)
Notes Payable	45,000	45,000	2,731	2,964	47,731	47,964	(233)	(0.49)
Total	$ 458,573	$ 459,769	$ 889,936	$ 847,500	$ 1,348,509	$ 1,307,269	$ 41,240	3.15

The City's current bond ratings are as follows:

	Standard and Poor's Corporation	Moody's Investors Service
General Obligation Bonds	AA	Aa2
Highway User Revenue Bonds	AA	A1
Utility Systems Revenue Bonds	AA-	Aa2

The Arizona Constitution provides that the general obligation bonded indebtedness of a city for general municipal purposes may not exceed 6 percent of the secondary assessed valuation of the taxable property in that city. In addition to the 6 percent limitation for general municipal purpose bonds, cities may issue general obligation bonds up to an additional 20 percent of the secondary assessed valuation for supplying such city with water, artificial light or sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds and recreational facilities, public safety, law enforcement, fire and emergency services facilities and streets and transportation facilities.

The total debt margin available July 1, 2011 is:

6% Bonds	$184,531,122
20% Bonds	354,445,979
Total Available	$538,977,101

Additional information on the City's long-term obligations can be found in Note 6 and Note 7 of the notes to the basic financial statements.

Economic Factors

In June 2011, the City Council approved a $1.148 billion budget, which is approximately a 3.1% increase from the prior year's budget. The fiscal year 2010–11 budget includes $928 million for operations and $220 million for scheduled bond capital improvements. The operations budget decreased by $16 million from the previous year's budget.

The City prepared and adopted a conservative budget that includes additional reductions and reprioritization of services. Mesa's General Fund revenue stream is strongly influenced by both national and regional economic conditions. Nationally, the economy appears to be slowly recovering from a serious and prolonged recession. In Arizona, the distressed real estate market seem to be hampering consumer spending which will likely continue to curtail economic growth in our region during the coming years.

Fiscal year 2011-12 General Fund revenues are projected to decline from the previous fiscal year. As a result of the City departments' continued efforts to increase efficiency and reduce cost, the City experienced expenditure savings that will provide additional resources to offset projected shortfalls for fiscal year 2011-12. A General Fund reduction of $7.4 million and a reduction of 32 full-time equivalent positions were still necessary. The majority of these positions were vacant. For the third consecutive year, the budget reflects no compensation or step increases for employees. However, total compensation-related expenses have increased as a result of increased employer contributions required by the state retirement systems and to the self-administered medical insurance program.

Requests for Information

This financial report is designed to provide a general overview of the City of Mesa, Arizona's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Mesa Controller, P.O. Box 1466, Mesa, Arizona, 85211-1466.

CITY OF MESA, ARIZONA

EXHIBIT A-1

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
ASSETS			
Pooled Cash and Investments	$ 225,039,917	$ 55,592,988	$ 280,632,905
Receivables:			
Accounts and Miscellaneous (Net of Allowances)	18,608,736	26,120,802	44,729,538
Accrued Interest	144,381	238,808	383,189
Due From Other Governments	20,290,036	2,492,155	22,782,191
Internal Balances	2,793,835	(2,793,835)	-
Inventory	5,867,894	-	5,867,894
Prepaid Costs	3,618,968	97,932	3,716,900
Deposits	363,733	5,086,651	5,450,384
Restricted Assets:			-
Pooled Cash and Investments	37,953,905	120,001,956	157,955,861
Cash With Trustee	22,490,388	-	22,490,388
Accounts Receivable	9,980,946	-	9,980,946
Due From Other Governments	22,993,869	-	22,993,869
Customer Deposits	-	3,119,315	3,119,315
Unamortized Bond Issue Costs	2,022,914	4,025,440	6,048,354
Investment in Joint Ventures	53,888,931	250,556,816	304,445,747
Capital Assets:			
Non-Depreciable	355,345,830	185,033,654	540,379,484
Depreciable, Net	924,442,901	1,117,347,782	2,041,790,683
Total Assets	1,705,847,184	1,766,920,464	3,472,767,648
LIABILITIES			
Warrants Outstanding	2,341,770	-	2,341,770
Accounts Payable	22,421,123	7,806,679	30,227,802
Other Accrued Expenses	29,424,391	-	29,424,391
Customer and Defendant Deposits	9,042,835	-	9,042,835
Compensated Absences	1,048,067	-	1,048,067
Liabilities Payable From Restricted Assets	44,747,523	60,698,673	105,446,196
Noncurrent Liabilities:			
Due Within One Year	34,585,985	26,837,919	61,423,904
Due in More Than One Year	657,013,257	927,137,360	1,584,150,617
Total Liabilities	800,624,951	1,022,480,631	1,823,105,582
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	872,302,182	430,435,538	1,302,737,720
Restricted For:			
Convention Center	-	272,909	272,909
Airport	-	5,422,074	5,422,074
Golf Courses	-	19,425	19,425
Hohokam Stadium/Fitch Complex	-	359,948	359,948
Court Projects	1,590,834	-	1,590,834
Debt Service	42,831	34,783,136	34,825,967
Bond Indentures	-	14,917,527	14,917,527
Grant Programs	4,343,888	-	4,343,888
Transportation Programs	32,917,156	-	32,917,156
Water, Wastewater & Solid Waste Improvements	-	98,487	98,487
Miscellaneous Programs	401,077	-	401,077
Unrestricted	(6,375,735)	258,130,789	251,755,054
Total Net Assets	$ 905,222,233	$ 744,439,833	$ 1,649,662,066

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-2

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	$ 59,551,669	$ 17,109,537	$ 1,777,282	$ -
Public Safety	273,320,156	9,584,232	1,107,338	4,521,268
Cultural-Recreational	54,549,751	9,826,530	697,505	-
Community Environment	106,434,114	8,189,159	61,701,867	26,940,181
Interest on Long-Term Debt	21,078,138	-	-	-
Total Government Activities	514,933,828	44,709,458	65,283,992	31,461,449
Business-type Activities:				
Electric	26,816,560	33,138,456	-	196,343
Gas	36,020,012	41,369,805	15,463	380,514
Water	82,377,888	102,215,430	10,000	5,950,015
Wastewater	63,613,492	59,659,464	-	3,516,496
Solid Waste	31,462,070	47,537,833	-	75,020
Airport	3,971,648	3,317,542	-	505,604
Golf Course	2,679,327	2,250,256	-	50,000
Convention Center	3,849,444	2,825,693	-	-
HohokamStadium/Fitch Complex	8,323,724	6,161,320	-	99,996
Cubs Stadium	14,990	51,614	-	-
District Cooling	964,585	945,434	-	-
Total Business-type Activities	260,093,740	299,472,847	25,463	10,773,988
Total Primary Government	$ 775,027,568	$ 344,182,305	$ 65,309,455	$ 42,235,437

General Revenues:
- Sales Taxes
- Property Taxes
- Occupancy Taxes
- Unrestricted State Shared Revenue
- Contributions Not Restricted to Specific Programs
- Unrestricted Investment Income
- Miscellaneous

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

EXHIBIT A-2 (Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (40,664,850)	$ -	$ (40,664,850)
(258,107,318)	-	(258,107,318)
(44,025,716)	-	(44,025,716)
(9,602,907)	-	(9,602,907)
(21,078,138)	-	(21,078,138)
(373,478,929)	-	(373,478,929)
-	6,518,239	6,518,239
-	5,745,770	5,745,770
-	25,797,557	25,797,557
-	(437,532)	(437,532)
-	16,150,783	16,150,783
-	(148,502)	(148,502)
-	(379,071)	(379,071)
-	(1,023,751)	(1,023,751)
-	(2,062,408)	(2,062,408)
-	36,624	36,624
-	(19,151)	(19,151)
-	50,178,558	50,178,558
$ (373,478,929)	$ 50,178,558	$ (323,300,371)
121,046,053	-	121,046,053
14,243,721	-	14,243,721
2,148,216	-	2,148,216
92,612,858	-	92,612,858
15,610,470	-	15,610,470
617,419	839,348	1,456,767
7,060,132	-	7,060,132
83,334,303	(83,334,303)	-
336,673,172	(82,494,955)	254,178,217
(36,805,757)	(32,316,397)	(69,122,154)
942,027,990	776,756,230	1,718,784,220
$ 905,222,233	$ 744,439,833	$ 1,649,662,066

CITY OF MESA, ARIZONA

EXHIBIT A-3

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Pooled Cash and Investments	$ 89,564,715	$ 651	$ 95,419,064	$ 184,984,430
Accounts Receivable (Net of Allowances)	15,396,233	31,390	1,627,766	17,055,389
Accrued Interest Receivable	99,363	-	45,018	144,381
Due From Other Governments	13,814,450	3,403,117	3,054,502	20,272,069
Due From Other Funds	1,915,000	-	-	1,915,000
Prepaid Costs	404,506	-	2,905,610	3,310,116
Deposits	363,733	-	-	363,733
Restricted Assets:				
Pooled Cash and Investments	-	-	37,953,905	37,953,905
Cash With Trustee	-	-	22,490,388	22,490,388
Accounts Receivable	4,332,101	-	5,648,845	9,980,946
Due From Other Governments	-	-	22,993,869	22,993,869
Total Assets	$ 125,890,101	$ 3,435,158	$ 192,138,967	$ 321,464,226
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants Outstanding	$ 2,341,770	$ -	$ -	$ 2,341,770
Accounts Payable	11,619,957	1,519,350	7,731,056	20,870,363
Due To Other Funds	-	1,915,000	-	1,915,000
Customer and Defendant Deposits	3,153,061	25	5,889,749	9,042,835
Compensated Absences	1,048,067	-	-	1,048,067
Payable From Restricted Assets:				
Accrued Lease Interest Payable	-	-	194	194
Accrued Bond Interest Payable	-	-	9,749,172	9,749,172
Accrued Note Interest Payable	-	-	756,250	756,250
Deferred Revenue	6,558,186	-	5,648,845	12,207,031
Matured General Obligation Bonds Payable	-	-	21,675,399	21,675,399
Matured Highway User Rev. Bonds Payable	-	-	6,030,000	6,030,000
Matured Capital Leases Payable	-	-	50,043	50,043
Total Liabilities	24,721,041	3,434,375	57,530,708	85,686,124
Fund Balances				
Nonspendable	404,506	-	2,905,610	3,310,116
Restricted	1,991,911	783	112,537,018	114,529,712
Committed	4,897,687	-	19,165,631	24,063,318
Unassigned	93,874,956	-	-	93,874,956
Total Fund Balances	101,169,060	783	134,608,259	235,778,102
Total Liabilities and Fund Balances	$ 125,890,101	$ 3,435,158	$ 192,138,967	$ 321,464,226

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-4

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - total governmental funds	$	235,778,102
Amounts reported for governmental activities in the statement of net assets are different because (also see Note 3 to the basic financial statements):		
Capital assets used in governmental activites are not financial resources and therefore not reported in the governmental funds.		1,276,127,429
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		55,911,845
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(685,842,777)
Deferred revenue for long-term rehabilitation loans and special assessments is shown on the governmental funds, but is not deferred on the statement of net assets.		5,720,566
Internal service funds are used by management to charge the costs of certain activites to individual funds.		17,527,068
Net assets of the governmental activities - statement of net assets	$	905,222,233

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-5

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Sales Taxes	$ 100,283,750	$ -	$ 20,762,303	$ 121,046,053
Property Taxes	-	-	14,273,796	14,273,796
Occupancy Taxes	2,148,216	-	-	2,148,216
Special Assessments	-	-	1,069,363	1,069,363
Licenses and Permits	9,291,101	-	3,286,325	12,577,426
Intergovernmental	114,387,283	31,852,516	28,541,432	174,781,231
Charges For Services	11,958,110	58,909	8,286,495	20,303,514
Fines and Forfeitures	10,831,835	108,004	880,189	11,820,028
Investment Income	382,535	-	204,264	586,799
Miscellaneous	6,572,075	33,328	811,276	7,416,679
Total Revenues	255,854,905	32,052,757	78,115,443	366,023,105
Expenditures:				
Current:				
General Government	38,843,180	-	-	38,843,180
Public Safety	209,180,440	-	5,985,101	215,165,541
Cultural-Recreational	42,191,344	-	-	42,191,344
Community Environment	11,632,326	25,709,794	31,120,816	68,462,936
Debt Service:				
Principal Retirement	-	-	31,689,924	31,689,924
Interest on Bonds	-	-	19,433,832	19,433,832
Interest on Leases	-	-	201,649	201,649
Interest on Notes	-	-	1,575,694	1,575,694
Service Charges	-	-	9,546	9,546
Cost of Issuance			29,100	29,100
Capital Outlay	16,952,450	9,995	43,210,145	60,172,590
Total Expenditures	318,799,740	25,719,789	133,255,807	477,775,336
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,944,835)	6,332,968	(55,140,364)	(111,752,231)
Other Financing Sources (Uses):				
Transfers In	83,653,918	-	44,410,587	128,064,505
Transfers Out	(26,948,206)	(12,399,242)	(5,070,857)	(44,418,305)
Face Amount of Bonds Issued	-	-	29,320,000	29,320,000
Premium on Issuance of Bonds	-	-	359,932	359,932
Total Other Financing Sources (Uses)	56,705,712	(12,399,242)	69,019,662	113,326,132
Net Change in Fund Balances	(6,239,123)	(6,066,274)	13,879,298	1,573,901
Fund Balances - Beginning, as Restated	107,408,183	6,067,057	120,728,961	234,204,201
Fund Balances - Ending	$ 101,169,060	$ 783	$ 134,608,259	$ 235,778,102

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-6
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	$	1,573,901
Amounts reported for governmental activities in the statement of activities are different because (also see Note 3 to the basic financial statements):		
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		(822,489)
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.		(52,215,224)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($60,172,590) exceeded depreciation ($55,452,439) in the current period.		4,720,151
The net effect of miscellaneous transactions involving capital assets (e.g., donations, transfers and disposals) is to increase net assets.		11,866,630
Loss on equity in Joint Venture		(3,279,296)
The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes financial resources of governmental funds. Neither transaction has any effect on net assets.		2,369,924
Governmental funds report the effect of bond issuance costs, premiums and deferred amounts related to refunding when the new debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(929,365)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(89,989)
Change in net assets of the governmental activities - statement of activities	$	(36,805,757)

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-7
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
ASSETS		
Current Assets:		
Pooled Cash and Investments	$ 55,592,988	$ 40,055,487
Accounts Receivable (Net of Allowances of $2,615,463)	26,120,802	413,165
Accrued Premiums Receivable	-	1,140,182
Accrued Interest Receivable	238,808	-
Due From Other Governments	2,492,155	17,967
Inventory	-	5,867,894
Prepaid Costs	97,932	308,852
Deposits	5,086,651	-
Restricted Assets:		
Pooled Cash and Investments	51,293,369	-
Customer Deposits	3,119,315	-
Total Current Assets	144,042,020	47,803,547
Noncurrent Assets:		
Restricted Assets:		
Impact & Development Fees:		
Pooled Cash and Investments	98,487	-
Bond Replacement, Extensions and Reserves:		
Pooled Cash and Investments	14,917,527	-
Capital Projects:		
Pooled Cash and Investments	53,692,573	-
Unamortized Bond Issue Costs	4,025,440	-
Total Restricted Assets	72,734,027	-
Capital Assets:		
Land	58,802,555	-
Water Rights	12,760,846	-
Buildings	62,413,552	2,014,156
Other Improvements	174,566,571	4,944,884
Machinery and Equipment	216,413,649	2,133,887
Intangibles	13,683,262	-
Infrastructure	1,201,069,809	-
Construction in Progress	113,470,253	58,997
Less Accumulated Depreciation and Amortization	(550,799,061)	(5,490,622)
Total Capital Assets, Net	1,302,381,436	3,661,302
Investment in Joint Ventures	250,556,816	-
Total Noncurrent Assets	1,625,672,279	3,661,302
Total Assets	$ 1,769,714,299	$ 51,464,849

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-7 (Continued)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
LIABILITIES		
Current Liabilities-Payable From Current Assets:		
Accounts Payable	$ 7,806,679	$ 1,550,760
Other Accrued Expenses	-	29,424,391
Current Liabilities-Payable From Restricted Assets:		
Capital Projects-Accounts Payable	6,284,854	-
Accrued Notes Interest Payable	31,109	-
Accrued Bond Interest Payable	21,576,835	-
Matured Bonds Payable	13,054,601	-
Matured Notes Payable	121,725	-
Customer Deposits and Prepayments	19,629,549	-
Current Portion of Long-term Liabilities:		
Current Portion of Revenue Bonds Payable	24,840,000	-
Current Portion of General Obligation Bonds Payable	679,363	-
Current Portion of Notes Payable	237,489	-
Current Portion of Other Long Term Obligations	116,754	
Current Portion of Compensated Absences	964,313	103,439
Total Current Liabilities	95,343,271	31,078,590
Long-Term Liabilities:		
Revenue Bonds Payable, Net of Deferred Amounts on Refundings	860,154,679	-
General Obligation Bonds Payable	1,530,367	-
Notes Payable	2,493,636	-
Other Long Term Obligations	116,754	
Unamortized Bond Premium	16,008,249	-
Compensated Absences	3,198,954	814,120
Post Employment Benefits	43,634,721	4,838,906
Total Long-Term Liabilities	927,137,360	5,653,026
Total Liabilities	1,022,480,631	36,731,616
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	430,435,538	3,661,302
Restricted For:		
Convention Center	272,909	-
Airport	5,422,074	-
Golf Courses	19,425	-
Hohokam Stadium\Fitch Complex	359,948	-
Debt Service	34,783,136	-
Bond Indentures	14,917,527	-
Water, Wastewater & Solid Waste Improvements	98,487	-
Unrestricted	260,924,624	11,071,931
Total Net Assets	$ 747,233,668	$ 14,733,233
Adjustment to reflect the consolidation of the internal service funds related to the enterprise fund.	(2,793,835)	
Total net assets of the business-type activities	$ 744,439,833	

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-8

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
Operating Revenues:		
Electric Sales Pledged as Security for Revenue Bonds	$ 33,138,456	$ -
Gas Sales Pledged as Security for Revenue Bonds	41,369,805	-
Water Sales Pledged as Security for Revenue Bonds	102,215,430	-
Wastewater Charges Pledged as Security for Revenue Bonds	59,659,464	-
Solid Waste Charges Pledged as Security for Revenue Bonds	47,537,833	-
Airport Fees	3,317,542	-
Golf Course Fees	2,250,256	-
Convention Center Fees	2,825,693	-
Hohokam Stadium/Fitch Complex Fees	6,161,320	-
Cubs Stadium	51,614	-
District Cooling Charges	945,434	-
Charges For Services	-	18,002,284
Self-Insurance Contributions	-	64,329,913
Other	-	66,009
Total Operating Revenues	299,472,847	82,398,206
Operating Expenses:		
Electric	23,455,135	-
Gas	30,306,602	-
Water	43,801,175	-
Wastewater	21,470,703	-
Solid Waste	29,096,080	-
Airport	2,379,968	-
Golf Course	2,335,861	-
Convention Center	3,807,523	-
Hohokam Stadium/Fitch Complex	7,673,706	-
Cubs Stadium	14,990	-
District Cooling	567,143	-
Warehouse, Maintenance & Services	-	19,267,484
Self-Insurance	-	63,495,689
Total Operating Expenses	164,908,886	82,763,173
Operating Income (Loss) Before Depreciation and Amortization	134,563,961	(364,967)
Depreciation and Amortization	(45,215,543)	(386,538)
Operating Income (Loss)	89,348,418	(751,505)

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-8 (Continued)
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
Nonoperating Revenues (Expenses):		
Investment Income Pledged as Security for Revenue Bonds	828,608	-
Investment Income Unpledged	10,740	39,110
Intergovernmental	25,463	-
Interest Expense:		
Revenue Bonds	(36,711,130)	-
General Obligation Bonds	(129,439)	-
Notes Payable	(58,659)	-
Other Long Term Obligations	(28,978)	
Amortization of Bond Issuance and Administrative Costs	(280,107)	-
Gain (Loss) on Disposal of Capital Assets	166,504	(4)
Equity Interest in Joint Ventures	(12,273,892)	-
Total Nonoperating Revenues (Expenses)	(48,450,890)	39,106
Income (Loss) before Transfers and Capital Contributions	40,897,528	(712,399)
Capital Contributions	11,054,685	-
Transfers Out	(83,615,000)	(31,200)
Change in Net Assets	(31,662,787)	(743,599)
Total Net Assets - Beginning, as Restated	778,896,455	15,476,832
Total Net Assets - Ending	$ 747,233,668	$ 14,733,233
Adjustment to reflect consolidation of internal service funds related to the enterprise fund.	(653,610)	
Change in net assets of the business-type activities	$ (32,316,397)	

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-9

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities	Governmental Activities
	Enterprise Fund	**Internal Service Funds**
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 296,624,919	$ -
Cash Received From Users	5,672,569	82,102,123
Cash Payments to Suppliers	(98,559,747)	(72,672,727)
Cash Payments to Employees	(52,088,451)	(8,194,210)
Net Cash Provided By Operating Activities	151,649,290	1,235,186
Cash Flows From Noncapital Financing Activities:		
Intergovernmental	25,463	-
Investment in Joint Ventures	(5,243,277)	-
Transfers Out to Other Funds	(83,615,000)	(31,200)
Net Cash Used For Noncapital Financing Activities	(88,832,814)	(31,200)
Cash Flows From Capital and Related Financing Activities:		
Proceeds From Bond Sales	54,801,871	-
Proceeds From Other Long-Term Obligations	350,263	-
Acquisition and Construction of Capital Assets	(46,650,866)	(65,334)
Proceeds From Sale of Capital Assets	544,987	-
Principal Paid on Bonds, Leases and Notes Maturities	(11,095,343)	-
Interest Paid on Bonds, Leases and Notes	(41,849,536)	-
Capital Contributed by Other Governments	3,294,629	-
Capital Contributed by Subdividers	3,966,289	-
Net Cash Used For Capital and Related Financing Activities	(36,637,706)	(65,334)
Cash Flows From Investing Activities:		
Interest Received on Investments	648,025	59,770
Net Cash Provided By Investing Activities	648,025	59,770
Net Increase in Pooled Cash and Investments	26,826,795	1,198,422
Pooled Cash and Investments at Beginning of Year	148,768,149	38,857,065
Pooled Cash and Investments at End of Year	$ 175,594,944	$ 40,055,487

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-9 (Continued)

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income (Loss)	$ 89,348,418	$ (751,505)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	45,215,543	386,538
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	2,824,641	(296,083)
Decrease in Inventory	-	96,470
Decrease in Deposits and Prepaid Costs	1,769,921	87,529
Increase in Accounts Payable	12,490,767	10,613
Increase in Other Accrued Expense	-	1,701,624
Total Adjustments	62,300,872	1,986,691
Net Cash Provided By Operating Activities	$ 151,649,290	$ 1,235,186
Noncash Transactions Affecting Financial Position:		
Contributions of Capital Assets	$ 3,513,069	$ -
Transfers of Capital Assets from Governmental Funds	280,697	-
Loss on Disposal of Capital Assets	(378,483)	(4)
Amortization of Bond Premium	2,166,452	-
Amortization of Debt Issuance Costs	(280,107)	-
Amortization of Deferred Amounts on Refundings	1,773,546	-

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-10
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2011

	Payroll Agency
ASSETS	
Pooled Cash and Investments	$ 11,499,861
Total Assets	$ 11,499,861
LIABILITIES	
Accrued Payroll Payable	$ 11,499,861
Total Liabilities	$ 11,499,861

The accompanying notes are an integral part of the financial statements.

The City of Mesa, Arizona, (the "City") was incorporated July 5, 1883 with an approximate population of 300 and an area of one square mile. Today, the City's estimated population is 440,677 within an area of approximately 137 square miles. The City's charter was adopted August 18, 1967 providing for a Council-Manager form of government. The City provides a full range of municipal services including police and fire protection, parks and recreation, library, transportation, health and certain social services and general administration. In addition, the City owns and operates an enterprise whose activities include operations of electricity, gas, water, wastewater, solid waste, airport, golf courses, convention center, stadium and district cooling.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 54-*Fund Balance Reporting and Governmental Fund Type Definitions.* This statement changed the previous reporting of Reserved and Unreserved fund balance to five new classifications, which are Nonspendable, Restricted, Committed, Assigned and Unassigned. This statement also added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types.

As a result of implementing GASB Statement No. 54, a new Special Revenue Fund was created for the Local Streets Sales Tax revenues and expenditures that were previously reported in the General Fund. In addition, the Vehicle Replacement and the Regional Transportation Plan Special Revenue Funds were moved to the Capital Projects Funds. The Public Art Special Revenue Fund was dissolved and the fund balance was moved to the General Fund. It was determined that property tax revenues and the court construction fees should be reported in the General Obligation Debt Service Fund. The July 1, 2010 beginning fund balances of the General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds have been restated to reflect these changes. (See note 2 – Restatement of Beginning Fund Balances/Net Assets).

The City's other significant accounting policies are described below:

a. <u>**Reporting Entity**</u>

The accompanying financial statements include the City and its blended component unit, the City of Mesa Municipal Development Corporation, collectively referred to as "the financial reporting entity". In accordance with GASB No. 14, the component unit discussed below has been included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

City of Mesa Municipal Development Corporation is a nonprofit corporation that is organized under the laws of the State of Arizona to assist the City in the acquisition and

(Continued)

financing of municipal projects and facilities. The corporation is governed by a board of directors which is responsible for approving the corporation's bond sales. Bond sales must also be approved by the City Council. Although it is legally separate from the City, the corporation is reported as if it is part of the primary government because its sole purpose is to finance the acquisition and or construction of public facilities for the City. Separate financial statements for the corporation can be obtained through the City's Accounting Services Division.

b. **Jointly Governed Organizations**

Phoenix – Mesa Gateway Airport Authority ("PMGAA") is a nonprofit corporation established and funded by the City, the City of Phoenix, and Towns of Gilbert and Queen Creek, and the Gila River Indian Community. The purpose of the entity is the redevelopment of Williams Air Force Base that was closed in September 1993 to become PMGAA. The Board of Directors consists of the mayors for the respective municipalities and the governor of the tribal community. The City contributed $1.7 million to the PMGAA operating and capital budget during this fiscal year.

Regional Public Transportation Authority ("RPTA") is a voluntary association of local governments, including the cities of Mesa, Tempe, Scottsdale, Glendale, Phoenix and Maricopa County. Its purpose is to create a regional public transportation plan for Maricopa County. The Board of Directors consists of the mayors of those cities and a member of the County Board of Supervisors.

Arizona Municipal Water Users Association ("AMWUA") is a nonprofit corporation established and funded by cities in Maricopa County for the development of an urban water policy and to represent the cities' interests before the Arizona legislature. The City's annual membership fee for this fiscal year was approximately $173,775. In addition, AMWUA contracts with the cities jointly using a multi-city sanitary sewer system to perform certain accounting, administrative and support services (see Note 13).

c. **Basic Financial Statements**

Government-wide Financial Statements: The government-wide financial statements (the statement of net assets and the statement of activities) report on the City as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. 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.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. Certain charges between the Enterprise Fund's utility systems and the various functional activities are

(Continued)

not eliminated, as this would distort the direct costs and program revenues reported for the various functions concerned.

The government-wide statement of net assets reports all financial and capital resources of the City, excluding fiduciary funds. It is presented in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be presented in three components: invested in capital assets, net of related debt; restricted and unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, capital leases, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use externally either imposed by creditors (such as bond covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functional activities and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific functional activity (General Government, Public Safety, Cultural-Recreational, etc.) or segment. Expenses reported for the various functional activities or segments include indirect expenses, such as overhead costs. Interest on long-term debt is not allocated to the various functions in the governmental activities. Program revenues include charges to customers or applicants who directly benefit from goods, services or privileges provided by a given function or segment. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, including special assessments. Taxes and other items not properly included as program revenues are reported as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Fund Financial Statements: The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Major individual governmental funds are reported as separate columns in the fund financial statements. The City has only one enterprise fund, which is reported as a major fund. Non-major governmental funds, as well as the internal service funds, are summarized into a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

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d. **Measurement Focus, Basis Accounting and Financial Statement Presentation**

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements: The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., - measurable and available to finance the City's operations. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current period. Principal revenue sources considered to be susceptible to accrual are City sales taxes, property taxes, intergovernmental revenues and interest on investments.

In applying the susceptible to accrual concept to intergovernmental revenues pursuant to GASB Statement No. 33, receivables and revenues are recognized when all the applicable eligibility requirements, including time requirements, have been met. Resources transmitted before the eligibility requirements are met are reported as deferred revenue. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

City sales taxes collected and held by merchants at year-end on behalf of the City are recognized as revenue. State shared revenues, including sales and income taxes, highway user and auto lieu taxes, and lottery distributions for transportation assistance, which are collected and held by the State at year-end, on behalf of the City, are also recognized as revenue. Special assessments are recognized as revenue only to the extent that individual installments are considered current assets. Annual installments not currently receivable are reflected as deferred special assessments revenue.

Licenses and permits, charges for services and miscellaneous revenues are recorded as revenue when received as cash because they are generally not available until actually received. Changes in the fair value of investments are recognized in revenue at the end of each year.

Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. An exception to this general rule is interest on long-term debt which is recorded when due.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation

(Continued)

is presented on the page following each governmental fund financial statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliations are also provided in Note 2.

Proprietary Funds and Fiduciary Funds Financial Statements: The financial statements of the proprietary fund are reported using the economic resources measurement focus and accrual basis of accounting, similar to the government-wide financial statements described above.

GASB Statement No. 20 requires that governments' proprietary and business-type activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements to its enterprise fund and business-type activities.

The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The proprietary fund financial statements 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. All revenues and expenses not meeting this definition, such as investment income and interest expense are reported as non-operating revenues and expenses.

Internal service funds of the City, which provide services primarily to the other funds of the City, are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of the internal service funds are consolidated into the governmental activities column when presented at the government-wide level. The costs of these services are reflected in the appropriate functional activity (General Government, Public Safety, Cultural-Recreational, etc.) on the government-wide statement of activities and the revenues and expenses within the internal service funds are eliminated from the government-wide financial statements to avoid any doubling up effect of these revenues and expenses.

The City's fiduciary fund is presented in the fund financial statements. The City's fiduciary fund is an agency fund, which is custodial in nature and does not involve measurement of results of operations. The agency fund is accounted for on the accrual basis of accounting. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

(Continued)

e. **Fund Accounting**

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the fund financial statements. GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The **Highway User Revenue Fund** accounts for capital projects and maintenance of the City's streets and highways, as mandated by the Arizona Revised Statutes. Financing for this fund is provided by the state shared fuel taxes.

The City reports the following non-major governmental funds:

Seven non-major **Special Revenue Funds** are used to account for specific revenues that are legally restricted to expenditures for specific purposes.

Five non-major **Debt Service Funds** are used to account for the accumulation of resources for the payment of long-term obligation principal, interest and service charges.

Eight non-major **Capital Project Funds** are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary fund:

The **Enterprise Fund** has been established to account for all enterprise functions. This includes the City-owned electric, gas, water, wastewater and solid waste systems, as well as the City-owned airport, golf courses, convention center, stadiums and district cooling.

Additionally, the City reports the following fund types:

The **Internal Service Funds** are used to account for operations that provide services to other departments of the government on a cost-reimbursement basis. These services include fleet support, materials and supply, printing and graphics, and self-insurance for property and public liability, workers' compensation and employee benefit programs.

(Continued)

The **Agency Fund** is used to account for assets being held by the City as an agent in a temporary custodial capacity. The Payroll Agency Fund accounts for all payroll transactions.

f. **Pooled Cash and Investments**

The City maintains an invested pool that is available for use by all City funds. Each funds portion of this pool is reported on the financial statements as "pooled cash and investments".

A single master custodian holds all assets of the invested pool. In addition, certain cash deposits and investments are also held separately by various City funds in separate accounts.

At year-end, City cash totaled $23,266,077 which includes $219,040 of petty cash. The carrying amount of the City's deposits was $23,047,037 and the bank balance was $21,012,963. The entire balance was covered by federal depository insurance. The difference of $2,034,074 represents deposits in transits, outstanding checks and other reconciling items.

Interest Rate Risk. The City's investment policy for limiting its exposure from rising interest rates complies with Arizona Revised Statute §35-323, which limits investments of public monies to maturities of less than three years.

The City has purchased its own Special Improvement District Bonds with maturities that exceed three years.

Credit Risk. The City's Policy is consistent with the City Charter which authorizes the investment of City funds in accordance with Arizona Revised Statute §35-313. These investments include obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool is overseen according to Arizona State Statute by the State Board of Deposit. The fair value of each share as of June 30, 2011, is equal to $1.00. The State Treasurer's Investment Pool #7 that the City participates in does not receive a credit quality rating.

The City's investment in the Federal Agency Securities are rated AAA by Standard & Poor's. The City's Special Improvement District bonds have no credit rating.

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The City's investments that are reflected in the financial statements as cash total $345,486,859.

(Continued)

The City's investments at June 30, 2011 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-2	More than 2	Concentration of Credit Risk %
U.S. Treasuries	$ 54,078,674	$ 16,166,504	$ 36,288,923	$ 1,623,247	52.09 %
U.S. Agencies:					
Federal Home Loan Bank	7,830,944			7,830,944	7.54
Federal Home Loan Mortgage Corp.	13,499,996		13,499,996		13.00
Federal National Mortgage Assn	24,863,455	5,492,195	7,114,607	12,256,653	23.95
City of Mesa Special Improvement District Bonds	3,553,010	335,000	335,000	2,883,010	3.42
Total	$ 103,826,079	$ 21,993,699	$ 57,238,526	$ 24,593,854	100.00 %

None of these Investments are callable.

Total Pooled City Cash and Investments at fair value are as follows:

Cash on Hand	$ 219,040
Carrying Amount of City Deposits	23,047,037
Investments in Local Govt Invest Pool	242,341,350
Repurchase Agreement	80,655,121
Cash with Trustee	22,490,388
Long-Term Investments	103,826,079
Total Pooled Cash and Investments	$ 472,579,015

Interest income from investments is recorded as revenue within the fund that made the investment, with the exception of the Debt Service, Capital Projects and Agency Funds. Income from investments within these funds is recorded in the General or Enterprise Fund based upon their general governmental or enterprise related function.

The City had a net increase in the fair value of investments during fiscal year 2010-11 of $360,591. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

(Continued)

g. **Accounts Receivable and Due from Other Governments**

Accounts receivable are recorded in the various funds and displayed in the financial statements net of an allowance for uncollectibles as follows:

Fund	Receivables	Allowance	Net
Governmental Activities:			
General Fund:			
Taxes	$ 11,013,266	$ (1,535,000)	$ 9,478,266
Courts	52,306,410	(48,573,919)	3,732,491
Other Customers	3,233,381	(1,047,905)	2,185,476
Restricted	4,332,101	-	4,332,101
Due from Other Governments			
State Shared Revenues	7,350,213	-	7,350,213
Other	6,464,237	-	6,464,237
Highway User Revenue Fund:			
Customers	31,390	-	31,390
Due from Other Governments:	3,403,117	-	3,403,117
Non-Major Governmental Funds:			
Taxes	1,582,635	-	1,582,635
Other Customers	45,131	-	45,131
Restricted-Spec. Assessments	5,246,412	-	5,246,412
Restricted-Property Taxes	402,433		402,433
Due from Other Governments	3,054,502	-	3,054,502
Restricted-Due from Other Governments	22,993,869	-	22,993,869
Internal Service Funds			
Customers	1,553,347	-	1,553,347
Due from Other Governments	17,967	-	17,967
Total Governmental Activities	$ 123,030,411	$ (51,156,824)	$ 71,873,587
Business-Type Activities:			
Utility Customers	$ 26,932,286	$ (2,438,203)	$ 24,494,083
Other Customers	1,803,979	(177,260)	1,626,719
Due from Other Governments	2,492,155	-	2,492,155
Total Business-type Activities	$ 31,228,420	$ (2,615,463)	$ 28,612,957

h. **Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

(Continued)

Rehabilitation Revolving Loans not yet due (General Fund)	$ 71,721
Surcharges included in Court Receivables (General Fund)	4,260,277
Grants received prior to meeting all eligibility requirements (General Fund)	2,226,188
Delinquent Property Taxes (Debt Service Fund)	402,433
Special assessments not yet due (Debt Service Fund)	5,246,412
Total deferred revenue for governmental funds	$ 12,207,031

i. **Interfund Receivables, Payables, and Transfers**

The following interfund activities are included in the fund financial statements at June 30, 2011:

Fund	Interfund Receivables	Interfund Payables
Governmental funds:		
General Fund	$ 1,915,000	$ -
Highway User Revenue Fund	-	1,915,000
Total Governmental funds	$ 1,915,000	$ 1,915,000

The interfund balances at June 30, 2011 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2011 are expected to be repaid within one year.

The net transfers of $83,334,303 from business-type activities to governmental activities on the government-wide statement of activities are primarily operational subsidies from the Enterprise Fund to the General Fund and capital assets with a book value of $280,697 that were transferred between governmental and business-type activities. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2011:

Fund	Transfers Out	Transfers In
Governmental funds:		
General Fund	$ 26,948,206	83,653,918
Highway User Revenue Fund	12,399,242	-
Non-major Governmental Funds	5,070,857	44,410,587
Total governmental funds	44,418,305	128,064,505
Proprietary funds:		
Enterprise Fund	83,615,000	-
Internal Service Funds	31,200	-
Total	$ 128,064,505	$ 128,064,505

(Continued)

The interfund transfers generally fall within one of the two following categories: 1) debt service payments made from a debt service fund but funded from an operating fund; 2) subsidy transfers.

j. **Inventory**

The warehouse inventory is valued at the lower of average cost or market, while fleet support services inventory is valued at cost on a first-in, first out (FIFO) basis. The cost of inventory is reported as an expenditure at the time individual items are consumed.

k. **Unbilled Accounts Receivable**

Unbilled utility service receivables are recorded in the year in which the services are provided. At June 30, 2011, unbilled utility service receivables are recorded in the Enterprise Fund as follows:

Electric	$	1,220,844
Gas		987,627
Water		4,929,726
Wastewater		2,080,649
Solid Waste		1,607,435
	$	10,826,281

l. **Capital Assets**

Capital assets, including infrastructure (streets, sidewalks, street lighting, storm drainage and other assets that are immovable and of value only to the City) are defined as assets with an initial cost of $5,000 or more and an estimated useful life of more than one year. Intangible assets for the City include goodwill, right of way, easements and computer software. The City has elected to capitalize software with an initial cost of $100,000 or more. All capital assets, whether owned by governmental activities or business-type activities are required to be recorded and depreciated in the government-wide financial statements. Capital assets with a value of $280,697, net of accumulated depreciation, were transferred to the business-type activities.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Contributions of assets are stated at fair market value based on appraisals or engineering estimates of value at the time of receipt. When assets are retired or sold, the costs of the assets and the related accumulated depreciation are eliminated from the accounts, and any resultant gain or loss is charged to income or expense.

Prior to June 30, 1978, the City did not maintain detailed property cost records of its capital assets other than for rolling stock. A physical inventory was performed during the fiscal year ended June 30, 1978 and detailed property records were prepared. Generally, the assets were

(Continued)

recorded at cost. Where historical cost information was not available, the assets were valued at estimated cost using engineering estimates, appraisals or current replacement cost, adjusted to the year of acquisition.

The City has made various class changes to both the government-wide and business-type capital asset classifications during fiscal year 2010–11 in preparation for the implementation of fully integrated ERP system expected to go live in fiscal year 2012. The changes did not affect the overall capital asset cost.

Depreciation has been provided using the straight-line method based on the estimated useful lives of the assets. Amortization of capital leased assets has been provided using the straight-line method based on the shorter of the lease period or estimated useful lives of the leased assets.

The estimated useful lives are as follows:

Buildings	15-50 Years
Other Improvements	10-50 Years
Machinery and Equipment	3-30 Years
Intangibles	3-99 Years
Infrastructure	10-99 Years

(Continued)

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2011 follows:

	Balance July 1, 2010, as Restated	Additions	Retirements	Class Change and Transfers	Balance June 30, 2011
Governmental Activities:					
Non-depreciable Assets:					
Land	$ 261,770,684	$ 4,371,159	$ -	$ (338,387)	$ 265,803,456
Construction-in-Progress	138,554,539	58,963,357	(107,975,522)	-	89,542,374
Total Non-depreciable Assets	400,325,223	63,334,516	(107,975,522)	(338,387)	355,345,830
Depreciable Assets:					
Buildings	305,264,399	3,788,104	(2,491,510)	(5,948,218)	300,612,775
Other Improvements	141,877,230	86,728,960	(1,486,440)	(11,684,721)	215,435,029
Machinery & Equipment	163,298,576	5,304,067	(19,139,424)	(9,397,059)	140,066,160
Intangibles	150,107	26,471	-	-	176,578
Infrastructure	775,313,923	17,579,936	(91,645)	27,086,819	819,889,033
Total Depreciable Assets	1,385,904,235	113,427,538	(23,209,019)	56,821	1,476,179,575
Less Accumulated Depreciation for:					
Buildings	(66,036,014)	(5,391,114)	749,615	2,919,668	(67,757,845)
Other Improvements	(58,887,632)	(10,044,730)	1,168,221	(465,682)	(68,229,823)
Machinery & Equipment	(114,907,406)	(13,787,977)	19,098,593	14,414,771	(95,182,019)
Intangibles	(134,590)	(27,950)	-	-	(162,540)
Infrastructure	(276,972,002)	(26,587,206)	22,649	(16,867,888)	(320,404,447)
Total Accum. Depreciation	(516,937,644)	(55,838,977)	21,039,078	869	(551,736,674)
Total Depreciable Assets, net	868,966,591	57,588,561	(2,169,941)	57,690	924,442,901
Governmental Activities Capital Assets, net	$ 1,269,291,814	$ 120,923,077	$ (110,145,463)	$ (280,697)	$ 1,279,788,731

Depreciation expense was charged to governmental functions in the government-wide financial statements as follows:

General Government	$ 9,770,951
Public Safety	10,745,368
Cultural - Recreational	6,309,539
Community Environment	28,626,581
Capital assets held by the City's Internal Service funds are charged to the various functions based on their usage of the assets	386,538
Total Depreciation	$ 55,838,977

(Continued)

	Balance July 1, 2010, as Restated	Additions	Retirements	Class Change and Transfers	Balance June 30, 2011
Business-type Activities:					
Non-depreciable Assets:					
Land	$ 59,946,543	$ -	$ (1,143,988)	$ -	$ 58,802,555
Water Rights	17,569,867	-	(4,809,021)	-	12,760,846
Construction-in-Progress	118,158,260	52,082,036	(56,770,043)	-	113,470,253
Total Non-depreciable Assets	195,674,670	52,082,036	(62,723,052)	-	185,033,654
Depreciable Assets:					
Buildings	92,701,747	5,222,139	-	(35,510,334)	62,413,552
Other Improvements	1,363,453,007	7,437,283	(1,009,858)	(1,195,313,861)	174,566,571
Machinery & Equipment	131,049,353	49,083,121	(8,628,344)	44,909,519	216,413,649
Intangibles	13,564,978	118,284	-	-	13,683,262
Infrastructure	7,145,836	8,331,205	(603,474)	1,186,196,242	1,201,069,809
Total Depreciable Assets	1,607,914,921	70,192,032	(10,241,676)	281,566	1,668,146,843
Less Accum. Depr. & Amort. for:					
Buildings	(32,435,782)	(2,126,172)	-	8,678,013	(25,883,941)
Other Improvements	(393,832,588)	(6,506,889)	2,706,002	356,971,477	(40,661,998)
Machinery & Equipment	(77,787,873)	(22,050,851)	4,825,130	7,112,367	(87,901,227)
Intangibles	(9,345,594)	(417,417)	-	-	(9,763,011)
Infrastructure	(266,650)	(14,114,214)	554,706	(372,762,726)	(386,588,884)
Total Accum. Depr. & Amort.	(513,668,487)	(45,215,543)	8,085,838	(869)	(550,799,061)
Total Depreciable Assets, net	1,094,246,434	24,976,489	(2,155,838)	280,697	1,117,347,782
Business-type Activities Capital Assets, net	$ 1,289,921,104	$ 77,058,525	$ (64,878,890)	$ 280,697	$ 1,302,381,436

Depreciation and Amortization expense was charged to enterprise functions in the government-wide financial statement as follows:

Electric	$ 2,982,802
Gas	3,037,528
Water	19,681,747
Wastewater	14,316,638
Solid Waste	2,292,728
Airport	1,577,362
Golf Course	262,787
Convention Center	18,180
Stadium	648,329
District Cooling	397,442
Total Depreciation and Amortization	$ 45,215,543

(Continued)

Construction in progress and related construction commitments are composed of the following:

Governmental Activities	Construction in Progress	Commitments
General Government	$ 7,593,657	$ 302,213
Public Safety	34,965,178	6,717,127
Cultural-Recreational	12,048,648	388,910
Community Environmental	34,875,894	9,113,532
Warehouse, Maintenance & Services	58,997	22,363
Total	$ 89,542,374	$ 16,544,145
Business-type Activities		
Electric	$ 19,226,906	$ 2,591,896
Gas	12,525,806	1,118,685
Water	65,533,776	14,192,125
Wastewater	8,229,124	3,214,103
Solid Waste	1,078,181	1,090,904
Airport	3,884,520	53,694
Golf Course	29,374	7
Convention Center	1,083,077	1
Stadium	254,395	18,500
Hohokam	1,134,434	59
District Cooling	490,660	28,428
Total	$ 113,470,253	$ 22,308,402

m. **Capitalization of Interest**

For the year ended June 30, 2011, the City capitalized net interest costs of $5,675,166 (interest expense of $5,710,498 reduced by interest income of $35,332 in the Business-type Activities Enterprise Fund). Total interest expense and income in the Business-type Activities Enterprise Fund before capitalization was $42,638,704 and $874,680 respectively.

n. **Self-Insurance Internal Service Fund**

The Property and Public Liability, Workers' Compensation and Employee Benefits Internal Service Funds have been established to account for the costs of claims incurred by the City under self-insurance programs. The City is fully self-insured for all public liability risks, up to a maximum of $3,000,000 per occurrence, for the current policy year under the Property

(Continued)

and Public Liability Insurance program. In addition, the City carries full property insurance with a $50,000 per occurrence deductible. Under the Workers' Compensation Program, the City is subject to a maximum deductible of $1,000,000 liability per occurrence. In the Employee Benefits Fund, the City has excess insurance coverage when an individual's claims exceed $175,000 per contract year. There were no changes in insurance coverage during this fiscal year for any of the three Self-Insurance Funds.

The various funds of the City include, as expenditures, amounts contributed to each of the self-insurance funds during the fiscal year. The estimated liability for claims outstanding is determined by a yearly actuarial study in the Property and Public Liability Fund. The claims liability in the Workers Compensation and Employee Benefits Funds are generated by the claims processing software systems maintained by City Staff.

The stop loss receivable balance for the Workers' Compensation Fund at June 30, 2011 is $293,588. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $507,901 with $287,911 received this current fiscal year. The Property and Public Liability Fund does not have a stop loss receivable at June 30, 2011, and the Fund has not received any settlements in excess of insurance coverage over the past three fiscal years. The stop loss receivable for the Employee Benefits Fund at June 30, 2011 is $119,577. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $3,123,571 with $2,611,967 received this current fiscal year.

Changes in the balances of claims liabilities during the past two fiscal years are as follows:

	Property & Public Liability	Workers' Compensation	Employee Benefits	Total
Unpaid Claims, 6/30/09	$ 23,500,000	$ 6,962,630	$ 3,793,067	$ 34,255,697
Adjustments to Reserves-FY 09-10	768,233	3,711,902	50,014,525	54,494,660
Claim Payments-FY 09-10	(6,632,233)	(2,953,506)	(50,076,301)	(59,662,040)
Unpaid Claims, 6/30/10	$ 17,636,000	$ 7,721,026	$ 3,731,291	$ 29,088,317
Adjustments to Reserves-FY 10-11	$ 545,129	$ 6,876,420	$ 51,013,683	$ 58,435,232
Claim Payments-FY 10-11	(3,540,129)	(3,127,828)	(51,431,201)	(58,099,158)
Unpaid Claims, 6/30/11	$ 14,641,000	$ 11,469,618	$ 3,313,773	$ 29,424,391

All unpaid claims are reported as current liabilities in the Statement of Net Assets as the change in these amounts have already been expensed in the statement of activities.

(Continued)

o. **Compensated Absences**

The current portion of governmental funds accrued vacation and sick leave benefits payable are included as a liability in the fund financial statements. The entire amount of accumulated unpaid vested vacation pay and an estimated amount for sick leave related to the proprietary funds is included as a liability in the fund financial statements. The remaining long-term balances related to governmental activities are included in the government-wide financial statement (see Note 6 for additional disclosure of long-term balances).

p. **Fund Balance Policies**

In the fund financial statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned. Nonspendable and Restricted fund balances represent the restricted classifications and Committed, Assigned, and Unassigned represent the unrestricted classifications.

Nonspendable fund balance includes amounts that can not be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) legally or contractually required to be maintained intact. Restricted fund balance has externally (outside the City) enforceable limitations imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation (changes in City Charter). Committed fund balance has self-imposed limitations imposed at the highest level of decision making authority, namely, Mayor and Council. Mayor and Council approval is required to commit resources or to rescind the commitment. Assigned fund balance represents limitations imposed by management. Assigned fund balance requests are submitted to the Controller for approval/nonapproval. Unassigned fund balance represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specific expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed and assigned are considered spent (if available) before unassigned amounts.

(Continued)

As of June 30, 2011 the fund balance details by classification are listed below:

Fund Balances:	General Fund	Highway User Revenue Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid Costs	$ 404,506	$ -	$ 2,905,610	$ 3,310,116
Restricted:				
Debt Service	-	-	45,042,831	45,042,831
Capital Projects	-	-	32,460,114	32,460,114
Streets Projects	-	783	32,892,046	32,892,829
General Government	11,892	-	-	11,892
Public Safety	275,065	-	-	275,065
Cultural-Recreational	114,120	-	-	114,120
Community Environment	-	-	2,142,027	2,142,027
Court	1,590,834	-	-	1,590,834
Committed To:				
General Govt	1,069,197	-	134,273	1,203,470
Cultural-Recreational	539,078	-	2,153,143	2,692,221
Public Safety	2,754,593	-	350,834	3,105,427
Building Safety	478,171	-	-	478,171
Community Environment	12,702	-	6,751,088	6,763,790
Vehicle Replacements	-	-	5,185,807	5,185,807
General Govt Facilities			4,590,486	4,590,486
Other Commitments	43,946	-	-	43,946
Unassigned	93,874,956	-	-	93,874,956
Total Fund Balances	$ 101,169,060	$ 783	$ 134,608,259	$ 235,778,102

The Mayor and Council has established a minimum fund balance policy for the General Fund of eight to ten percent of budgeted expenditures. The fund balance in the General Fund as of June 30, 2011 as reported in Exhibit B-3 is 21.9% of General Fund expenditures budgeted for fiscal year 2011-2012.

(Continued)

q. **Statement of Cash Flows**

A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, non-capital financing, capital and related financing, or investing activities.

For purposes of the statements of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. This includes repurchase agreements and all monies in the State Treasurer's Local Government Investment Pool since the City may deposit or withdraw cash at any time without prior notice or penalty.

r. **Budgets and Budgetary Accounting**

Each year, the City Manager issues a budget calendar giving specific completion dates for various phases of the budget preparation process. The final adoption of the operating budget is by ordinance.

Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted by the City to obtain citizen comments.

Prior to June 30, the budget for the ensuing year is legally adopted through passage of an ordinance; these appropriations lapse at the end of each fiscal year.

Legal control over the budget derives from State statutes that prohibit the City from exceeding its adopted budget in total, and from the resolution itself that limits expenditures by fund and by departmental groupings. Transfers of sums within a specific fund or departmental group may be made upon City Manager approval.

The legally adopted budget consists of all funds except the Agency Fund. Capital Projects (both Governmental and Proprietary) are budgeted as one item (as shown in Exhibit D-5). Governmental debt service expenditures are budgeted in the General Fund and Special Revenue Funds.

Budget schedules for the major governmental funds (General and Highway User Revenue Funds) are presented in the Required Supplementary Information Section, and the other funds are located in the Supplementary Information Section. Additional detailed budget schedules for the General and Highway User Revenue Funds are also located in the Supplementary Information Section.

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments. This limitation restricts the growth of expenditures to a percentage determined

(Continued)

by population and inflation, with certain expenditures excluded from the limitation. The State Economic Estimates Commission determines and publishes, prior to April 1st of each year, the expenditure limitation for the following fiscal year for each governmental unit. Fiscal year 1979-80 is the base year for calculations.

Budgets for all funds are adopted in accordance with the requirements of the Arizona Constitution, Arizona Revised Statutes and the Mesa City Charter. There are certain differences between the basis used for budgetary purposes and that used for reporting in accordance with generally accepted accounting principles. For additional detail, see the note to required supplementary information and the individual budget schedules in the supplemental information exhibits.

Budgeted amounts are as originally adopted by the City Council on June 21, 2010.

s. **Contingency Services**

The principal purpose of a contingency is to cover any unforeseen expenditures that may arise after the budget is adopted, and to cover expenditures resulting from prior year encumbrances. It is impossible to estimate revenues exactly or to determine in a prior year the exact expenditure of each program or activity for the ensuing year. Thus a contingency is essential for budgetary purposes.

Any balance of a contingency appropriation not used during one fiscal year is available to help finance the following year's budget. The contingency applications are reflected in the budget basis financial statements for the fiscal year ended June 30, 2011 and are made in accordance with State Statutes.

t. **Property Taxes**

The City's secondary property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent after November 1 and after May 1, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February.

Secondary property taxes are levied to pay principal and interest on bonded indebtedness. The dollar amount of the secondary property tax is "unlimited" and the actual full cash value of property is used in determining the tax rate.

In fiscal year 2010-11, current property tax collections were $13,889,057 or 97.4% of the tax levy, and were recognized as revenue when received. At fiscal year end, the delinquent property tax is recorded as a receivable. Revenue is recognized for those payments expected to be collected within 60 days and the remaining balance is reported as deferred revenue. The

(Continued)

receivable at 06/30/11 was $843,859 of which $441,426 was recorded as revenue and $402,433 as deferred revenue.

2. RESTATEMENT OF BEGINNING FUND BALANCES /NET ASSETS

a. Governmental Fund Balances

The restatement of beginning fund balances related to the implementation of GASB 54 is as follows:

	General Fund	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Non-Major Capital Project Funds
Fund Balance at 06/30/2010, as Previously Reported	$ 132,934,983	$ 26,332,523	$ 45,338,759	$ 23,530,879
Reclassifications:				
Regional Transportation Plan Fund	$ -	$ (2,867,180)	$ -	2,867,180
Court Construction Fee Fund	-	(382)	382	-
Public Art Fund	17,181	(17,181)	-	-
Street Sales Tax Fund	(25,543,981)	25,543,981	-	-
Vehicle Replacement Fund	-	(4,839,313)	-	4,839,313
Fund Balance at 07/01/2010, as Restated	$ 107,408,183	$ 44,152,448	$ 45,339,141	$ 31,237,372

Property tax revenues were moved to the debt service fund, however no restatement was necessary as all property tax revenues were spent as of 06/30/2010.

b. Governmental Activities, Business Type Activities and Enterprise Fund Net Assets

Beginning net assets of the Business-type activities have been restated for an error in calculating joint venture expenses relating to the joint water reclamation plant with the towns of Gilbert and Queen Creek. The adjustment is for the fiscal years ending 06/30/2007 through 06/30/2010. Net assets also have been restated for the bond premiums from the 2009 utility revenue bond sale. These will be amortized over the life of the bond issue. In addition, beginning net assets of the Governmental Activities have been restated for an error in calculating depreciation expense related to a capital lease. The adjustment is for the fiscal years ending June 30, 2009 and June 30, 2010.

(Continued)

The effect on net assets for the Government-wide Statements and the Fund Statements is as follows:

	Governmental Activities	Business-Type Activities	Enterprise Fund
Net Assets at 06/30/10, as Previously Reported	$ 935,383,146	$ 753,530,517	$ 755,670,742
Capitalized Lease Depreciation Adjustment	6,644,844		
Unamortized Premium Adjustment		(407,356)	(407,356)
Joint Venture Adjustment		23,633,069	23,633,069
Net Assets at 07/01/10, as Restated	$ 942,027,990	$ 776,756,230	$ 778,896,455

3. **RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE STATEMENTS**

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliations briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each governmental fund financial statement. Additional reconciliations are provided on the next page.

(Continued)

Reconciliation of the Governmental Funds Balance Sheet to the government-wide Statement of Net Assets:

	Total Governmental Funds	Long-term Assets/ Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Total
Assets					
Pooled Cash and Investments	$ 184,984,430	$	$ 40,055,487		$ 225,039,917
Accounts Receivable, net	17,055,389		1,553,347		18,608,736
Interest Receivable	144,381				144,381
Due From Other Governments	20,272,069		17,967		20,290,036
Due From Other Funds	1,915,000		2,793,835	(1,915,000)	2,793,835
Inventories			5,867,894		5,867,894
Prepaid Costs	3,310,116		308,852		3,618,968
Deposits	363,733				363,733
Restricted Pooled Cash and Investments	37,953,905				37,953,905
Restricted Cash With Trustee	22,490,388				22,490,388
Restricted Accounts Receivable	9,980,946				9,980,946
Restricted Due From Other Governments	22,993,869				22,993,869
Unamortized Bond Issuance Costs		2,022,914			2,022,914
Investment in Joint Ventures		53,888,931			53,888,931
Capital Assets		1,276,127,429	3,661,302		1,279,788,731
Total Assets	$ 321,464,226	$ 1,332,039,274	$ 54,258,684	$ (1,915,000)	$ 1,705,847,184
Liabilities					
Warrants Outstanding	$ 2,341,770	$	$	$	$ 2,341,770
Accounts Payable	20,870,363		1,550,760		22,421,123
Other Accrued Expenses			29,424,391		29,424,391
Due To Other Funds	1,915,000			(1,915,000)	-
Customer and Defendant Deposits	9,042,835				9,042,835
Compensated Absences	1,048,067				1,048,067
Restricted Lease Interest Payable	194				194
Restricted Bond Interest Payable	9,749,172				9,749,172
Restricted Note Interest Payable	756,250				756,250
Restricted Deferred Revenue	12,207,031	(5,720,566)			6,486,465
Matured G.O. Bonds Payable	21,675,399				21,675,399
Matured HURF Bonds Payable	6,030,000				6,030,000
Matured Capital Leases Payable	50,043				50,043
Long-term Liabilities		685,842,777	5,756,465		691,599,242
Total Liabilities	85,686,124	680,122,211	36,731,616	(1,915,000)	800,624,951
Fund Balance/Net Assets					
Total Fund Balance/Net Assets	235,778,102	651,917,063	17,527,068	-	905,222,233
Total Liabilities and Fund Balance/Net Assets	$ 321,464,226	$ 1,332,039,274	$ 54,258,684	$ (1,915,000)	$ 1,705,847,184

(1) When capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

(Continued)

Costs of capital assets	$1,822,373,488
Accumulated depreciation	(546,246,059)
	$1,276,127,429

Investment in joint ventures that are to be used in governmental activities are also reported in the governmental funds as expenditures as constructed. These assets are included in the statement of net assets for the City as a whole.

Investment in joint ventures	$ 53,888,931

Bond issuance costs are expended when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issuance costs	$ 2,022,914

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement.

Bonds payable	$ 411,406,859
Notes payable	45,000,000
Capital leases	2,165,596
Compensated absences	16,376,719
Post employment benefits	203,548,142
Unamortized bond premiums	7,345,461
	$ 685,842,777

Deferred revenue for the long-term special assessment receivables, property tax receivables and for the rehabilitation loan program shown on the governmental fund statements is not deferred on the statement of net assets.

Deferred property tax revenues	402,433
Deferred special assessment revenue	$ 5,246,412
Deferred rehabilitation loan revenue	71,721
	$ 5,720,566

(2) Internal service funds are used by management to charge the costs of certain activities, such as fleet support, materials and supplies, printing and graphics, and self-insurance, to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental funds balance sheet.

Total	$ 17,527,068

(Continued)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-wide Statement of Activities:

	Total Governmental Funds	Long-term Revenues/ Expenses (1)	Capital-Related Items (2)	Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations and Adjustments (5)	Statement of Activities
Revenues and Other Sources							
Taxes	$ 121,046,053	$	$	$	$	$	$ 121,046,053
Property Taxes	14,273,796	(30,075)					14,243,721
Occupancy Taxes	2,148,216						2,148,216
Special Assessments	1,069,363	(783,885)					285,478
Licenses and Permits	12,577,426						12,577,426
Intergovernmental	174,781,231	(8,529)					174,772,702
Charges for Services	20,303,514						20,303,514
Contributions				15,610,470			15,610,470
Fines and Forfeitures	11,820,028						11,820,028
Investment Income	586,799			39,110			625,909
Miscellaneous	7,416,679			79,962	(436,509)		7,060,132
Other Sources:							
Capital Contributions			14,300,119				14,300,119
Transfers In	128,064,505			(31,200)		(44,410,587)	83,622,718
Face Amount of Bond Sales	29,320,000				(29,320,000)		-
Premiums on Issuance of Bonds	359,932				(359,932)		-
Total Revenues and Other Sources	523,767,542	(822,489)	14,300,119	15,698,342	(30,116,441)	(44,410,587)	478,416,486
Expenditures/Expenses							
Current:							
General Government	38,843,180	6,984,302	11,559,981	2,161,235	2,971		59,551,669
Public Safety	215,165,541	36,476,684	10,774,473	10,858,125	45,333		273,320,156
Cultural-Recreational	42,191,344	4,598,927	6,434,285	1,289,198	35,998		54,549,752
Community Environment	68,462,936	4,164,857	32,115,788	1,479,773	210,761		106,434,115
Debt Service:							
Principal Payments	31,689,924				(31,689,924)		-
Interest on Bonds	19,433,832				(133,039)		19,300,793
Interest on Capital Leases	201,649						201,649
Interest on Notes	1,575,694						1,575,694
Service Charges	9,546	(9,546)					-
Cost of Issuance	29,100				(29,100)		-
Capital Outlay	60,172,590		(60,172,590)				-
Total Expenditures\Expenses	477,775,336	52,215,224	711,937	15,788,331	(31,557,000)	-	514,933,828
Other Financing Uses/ Changes in Net Assets							
Transfers Out	44,418,305		280,697			(44,410,587)	288,415
Total Expenditures\Expenses & Other Financing Uses	522,193,641	52,215,224	992,634	15,788,331	(31,557,000)	(44,410,587)	515,222,243
Net Change for the Year	$ 1,573,901	$ (53,037,713)	$ 13,307,485	$ (89,989)	$ 1,440,559	$ -	$ (36,805,757)

(1) Revenues that are "unavailable" and do not provide current financial resources are not reported in the governmental funds. These revenues are reported in the statement of activities. However, the subsequent collection of these revenues in the governmental funds will reduce the amount reported in the statement of activities.

Property tax revenue	$ (30,075)
Special assessment revenue	(783,885)
Rehabilitation loan revenue	(8,529)
Total	$ (822,489)

(Continued)

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.

Accrual of long-term compensated absences	$ 1,321,179
Accrual of post employment benefits	(53,536,405)
Total	$ (52,215,224)

(2) When capital assets that are to be used in the governmental activities are purchased or constructed, or are to be classified as investment in joint venture, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay for capital assets	$ 58,898,023
Capital outlay for joint venture	1,274,567
Depreciation expense	(55,452,439)
Loss on equity interest for joint venture	(3,279,296)
Total	$ 1,440,855

The net effect of miscellaneous transactions involving capital assets (donations, transfers and disposals) is to increase net assets.

Donation of capital assets	$ 14,300,119
Loss on disposal of capital assets	(2,152,792)
Transfer of capital assets reclassified to transfer in	(280,697)
Total	$ 11,866,630

(3) Internal service funds are used by management to charge the costs of certain activities, such as fleet support, materials and supplies, printing and graphics, and self-insurance, to the individual funds. The adjustments for internal service funds “close” those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds’ costs for the year.

Revenue and other sources	$ 15,729,542
Expenditures and other uses	(15,788,331)
Transfers out to General Fund	(31,200)
Change in net assets	$ (89,989)

(Continued)

(4) Bond and note proceeds are reported as financing sources and the repayment of principal consumes financial resources in the governmental funds. Neither transaction has any effect on the statement of activities.

New debt issued (including refunded debt)	
General Obligation bond proceeds	$ (29,320,000)
Principal repayments	31,689,924
Total	$ 2,369,924

Governmental funds report bond issue costs, premiums and deferred amounts relating to refunding when first issued. In the statement of activities these amounts are deferred and amortized.

Amortization of bond issue costs	$ (265,964)
Amortization of deferred refunding amounts	(1,173,630)
Current year bond premium additions	(796,440)
Amortization of bond premiums	1,306,669
Total	$ (929,365)

(5) Interfund transfers between governmental activities, other than Internal Service Funds, are eliminated in the consolidation of these activities for the statement of activities. The elimination is reflected as a reduction of transfers in and transfers out to eliminate the doubling up effect of these transactions within the governmental activities. Elimination of transfers to/from the Internal Service Funds is netted into the results of the Internal Service Funds in (3) above.

Transfers out	$ (44,410,587)
Transfers in	44,410,587
Total	$ -

(Continued)

4. RETIREMENT AND PENSION PLANS

All full-time employees of the City are covered by one of three pension plans. The Arizona State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Personnel Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Councilmembers contribute to the State's Elected Officials Retirement Plan that is also a multiple-employer cost-sharing pension plan.

Arizona State Retirement System:

a. **Plan Description**

All the City's full-time general employees participate in the Arizona State Retirement System ("System"), a multiple-employer, cost-sharing defined benefit pension plan. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5 of the Arizona Revised Statutes. The System provides for retirement, disability, and death and survivor benefits. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Avenue, Suite 1300, Phoenix, Arizona, 85012 or by calling 1-800-621-3778.

b. **Funding Policy**

Covered employees were required by state statute to contribute 9.85 percent of their salary to the System during fiscal year 2010-11 and the City was required to match it. The Arizona Revised Statutes ("A.R.S.") provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate. The City's contributions to the System for the years ending June 30, 2011, 2010 and 2009 were $13,347,661, $13,134,628 and $13,983,834 respectively, which were equal to the required contributions for each year. The City's employees contributed equal amounts to the System for the same time period.

Elected Officials Retirement Plan:

a. **Plan Description**

The City's Mayor and Councilmembers participate in the Elected Officials Retirement Plan ("EORP") a multiple employer, cost-sharing defined benefit pension plan. The Fund Manager of the Public Safety Personnel Retirement System ("PSPRS") is the administrator

(Continued)

for the EORP that was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. EORP provides retirement benefits as well as death and disability benefits. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona, 85014 or by calling 602-255-5575.

b. **Funding Policy**

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7 percent of their annual covered salary. The employer rate for 2010-11 was 29.79 percent. The City's contributions to EORP for the fiscal years ending June 30, 2011, 2010 and 2009 were $44,454, $39,152 and $42,300 respectively, which were equal to the required contributions for each year. The City's employees contributed $10,446, $10,440 and $10,575, for the same time period.

Public Safety Personnel Retirement System:

a. **Plan Description**

The City contributes to the Public Safety Personnel Retirement System ("PSPRS"), an agent multiple-employer public safety employee retirement system that acts as a common investment and administrative agent for the various fire and police agencies within the state. All police and fire personnel are eligible to participate in the plan. The plan provides retirement and disability benefits, and death benefits to plan members and beneficiaries. The PSPRS is jointly administered by the Fund Manager and 162 Local Boards and was established by Title 38, Chapter 5 Article 4 of the Arizona Revised Statutes. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Safety Personnel Retirement System, 1020 East Missouri, Phoenix, Arizona, 85014 or by calling 602-255-5575.

b. **Funding Policy**

PSPRS members are required to contribute 7.65 percent of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for 2010-11 was 20.30 (18.77 pension plus 1.53 health care) percent for fire personnel and 21.11 (19.52 pension plus 1.59 health care) percent for police members. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature. (A.R.S. Section 38-843)

(Continued)

c. **Annual Pension Cost**

Police personnel contributed $4,166,854 and fire personnel $2,074,082 during fiscal year 2010-11. For 2011, the City's annual pension cost of $11,498,338 for police and $5,503,772 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.5 percent investment rate of return, (b) projected salary increases of 5.5 percent attributable to inflation, (c) additional projected salary increases ranging from 0.0 percent to 3.0 percent per year, attributable to seniority/merit. The actuarial value of PSPRS assets was determined using the smooth market value method. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over an closed period of 27 years.

d. **Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2010 (Latest actuarial date available) is as follows:

		Police		Fire
Actuarial accrued liability (AAL)	$	369,998,464	$	211,840,704
Actuarial value of plan assets		257,026,009		156,842,989
Unfunded actuarial accrued liability (UAAL)	$	112,972,455	$	54,997,715
Funded ratio (actuarial value of plan assets/AAL)		69.5%		74.0%
Covered payroll (active plan members)	$	56,051,165	$	26,743,003
UAAL as a percentage of covered payroll		201.6%		205.7%

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

(Continued)

e. **Three Year Trend Information for PSPRS**

Police

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 12,653,191	100%	$ -
2010	12,275,544	100	-
2011	11,498,338	100	-

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 7,206,009	100%	$ -
2010	6,013,620	100	-
2011	5,503,772	100	-

f. **Annual Other Post Employment Benefits Cost**

For 2011 the City's annual Other Post Employment Benefits (OPEB) cost of $1,030,688 for police and $469,225 for fire was equal to the City's required contributions. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

(Continued)

Police

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 1,000,670	100%	$ -
2010	971,065	100	-
2011	1,030,688	100	-

Fire

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 489,195	100%	$ -
2010	477,752	100	-
2011	469,225	100	-

5. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, the City provides post-retirement health care benefits to all eligible retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2011, approximately 1,505 former employees were eligible for these benefits, an increase of 77 participants from the prior year or a 5.4% increase.

The cost of post-employment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In implementing the requirements of GASB Statement No. 45, the City recognizes the cost of post employment healthcare in the year the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be amortized over 30 years, the first period commencing with the fiscal year ending June 30, 2008.

The unfunded actuarial accrued annual required contribution for current retirees as well as current active members for fiscal year 10-11 was $66,999,119. A liability of $12,160,364 is accrued in the business type activities financial statements, the remaining $54,838,755 has been accrued in the governmental activities column in the government-wide financial statements.

(Continued)

Plan Description

The City provides post-employment medical care (OPEB) for retired employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's self-insurance health insurance plan which covers both active and retired members. The benefits, benefit levels and contribution rates are determined annually by the City's Benefits Advisory Board and approved by the Mesa City Council. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate financial report.

Benefits Provided

The City provides post-employment medical care benefits to its retirees. To be eligible for benefits, an employee must qualify for retirement under one of the state retirement plans for public employees and be covered under the City's medical plan during their active status. Employees must enroll in a City plan immediately after they retire or their eligibility for this benefits ceases. All medical care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees. Upon a retiree's death, the retiree's dependents are no longer eligible for City coverage.

As of July 1, 2010, Membership Consisted of:

Retirees and Beneficiaries Receiving Benefits	1,465
Active Employees	3,495
Total	4,960

Funding Policy

The plan premium rates are determined annually by the Benefits Advisory Board and approved by the City Council. The City's contribution to the retirees health insurance premium is determined by their length of service with the City and their original hire date. To receive maximum benefits an employee must meet the following:

Ten years of service for employees hired prior to January 1, 2001
Fifteen years of service for employees hired at January 1, 2001 but before January 1, 2006.
Twenty years of service for employees hired on or after January 1, 2006.
As of January 1, 2009, new hires are no longer eligible for benefits.

For fiscal year ended June 30, 2011, the City contributed $13,494,020 to the plan (approximately 70.2 percent of total premiums). Plan members receiving benefits contributed $5,726,367 or approximately 29.8 percent of total premiums.

(Continued)

Annual OPEB Costs / Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information for the plan are as follows at June 30, 2011:

Annual Required Contribution	$	83,522,342
Interest on Net OPEB Obligation		8,316,126
Adjusted to Annual Required Contribution		(11,345,329)
Annual OPEB Cost		80,493,139
Contributions Made		13,494,020
Increase in Net OPEB Obligation		66,999,119
Net OPEB Obligation – Beginning of year		185,022,650
Net OPEB Obligation – End of year	$	252,021,769

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three years ending June 30, 2009 through 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	$ 65,194,175	$ 9,263,746	14.21%	$ 112,932,659
2010	81,969,756	9,879,765	12.05	185,022,650
2011	80,493,139	13,494,020	16.76	252,021,769

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009 was as follows: (Latest actuarial date available)

Actuarial Value of Plan Assets	$	-
Actuarial Accrued Liability		916,615,559
Unfunded actuarial accrued liability	$	916,615,559
Funded ratio		0%
Covered payroll	$	321,012,148
Unfunded actuarial accrued liability as a percentage of covered payroll		285.5%

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

(Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation were as follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Entry age normal, level dollar amount
Amortization method	30 – year amortization open
Remaining amortization period	30 years
Asset Valuation Method	N/A, no assets in trust
Actuarial Assumptions:	
Discount rate	4.50%
Health care cost trend rate:	
• Medical, Drugs	10.0% in 2010-2011, grading down by 0.5% each year to an ultimate rate of 5.0%
• Dental, Mental Health, Vision	5%
• Retiree contribution increase	Same as medical Trend

Medical Reimbursements

The federal government may provide the City subsidies per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible employees. Any current and future year subsidies are recorded as revenue in the year received and is not recognized as a reduction to the actuarial accrued liability.

(Continued)

6. LONG-TERM OBLIGATIONS

a. Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations.

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 273,869,349	$ 29,320,000	(21,675,400)	$ 281,513,949	$ 21,755,637
Highway User Revenue Bonds	134,545,000	-	(6,030,000)	128,515,000	6,390,000
Special Assessment Bonds with Governmental Commitment	6,550,000	-	(744,000)	5,806,000	744,000
Less Deferred Amounts on Refundings	(5,601,720)	-	1,173,630	(4,428,090)	-
Total Bonds Payable	409,362,629	29,320,000	(27,275,770)	411,406,859	28,889,637
Capital Leases	5,406,120	-	(3,240,524)	2,165,596	1,344,046
Highway Project Advancement Notes	45,000,000	-	-	45,000,000	-
Unamortized Premiums	7,855,690	796,440	(1,306,669)	7,345,461	-
Post Employment Benefits	153,548,293	65,883,605	(11,044,850)	208,387,048	-
Compensated Absences	18,552,257	12,948,949	(14,206,928)	17,294,278	4,352,302
Governmental Activities Total	$ 639,724,989	$ 108,948,994	$ (57,074,741)	$ 691,599,242	$ 34,585,985
Business-type Activities:					
Bonds Payable:					
Revenue Bonds	$ 857,435,000	$ 53,950,000	(12,585,000)	$ 898,800,000	$ 24,840,000
General Obligation Bonds	2,690,651	-	(469,600)	2,221,051	679,363
Less Deferred Amounts on Refundings	(15,590,188)	-	1,773,546	(13,816,642)	-
Total Bonds Payable	844,535,463	53,950,000	(11,281,054)	887,204,409	25,519,363
Notes Payable	2,963,780	-	(232,655)	2,731,125	237,489
Unamortized Bond Premiums	16,915,475	1,259,226	(2,166,452)	16,008,249	-
Post Employment Benefits	31,474,357	14,609,534	(2,449,170)	43,634,721	-
Compensated Absences	4,613,127	2,671,482	(3,121,342)	4,163,267	964,313
Other Long-Term Obligations	-	350,263	(116,755)	233,508	116,754
Business-type Activities Total	$ 900,502,202	$ 72,840,505	$ (19,367,428)	$ 953,975,279	$ 26,837,919

(Continued)

b. **Bonds Payable**

At June 30, 2011, long-term bonds payable consisted of:

Classified in Governmental Activities on the government-wide financial statements:

General Obligation Bonds

$24,720,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from $59,706 to $9,498,229, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	$ 4,959,069
$41,680,611 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $1,461,369 to $10,277,813, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016.	22,109,014
$22,565,000 2003 general obligation serial bonds, due in annual installments ranging from $1,250,000 to $2,315,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	20,065,000
$46,230,300 2004 general obligation refunding serial bonds, due in annual installments ranging from $34,839 to $31,852,800, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2018.	44,489,253
$11,705,000 2005 general obligation serial bonds, due in annual installments ranging from $500,000 to $3,250,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	11,705,000
$9,710,000 2006 general obligation serial bonds, due in annual installments ranging from $135,000 to $4,225,000, plus semi-annual interest ranging from 4.40 percent to 5.0 percent through July 1, 2025.	9,710,000
$25,482,000 2006 general obligation refunding serial bonds, due in annual installments ranging from $143,425 to $11,306,746, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	24,845,461
$15,915,000 2007 general obligation serial bonds due in annual installments ranging from $615,000 to $5,500,000 plus semi-annual interest ranging from 4.125 percent to 6.0 percent through July 1, 2027.	15,915,000
$15,450,000 2008 general obligation serial bonds due in annual installments ranging from $375,000 to $6,675,000 plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2028.	14,300,000
$61,830,000 2009 general obligation serial bonds due in annual installments ranging from $1,750,000 to $10,125,000 plus semi-annual interest ranging from 4.0 percent to 4.625 percent through July 1, 2029.	50,745,000
$30,865,000 2010 general obligation bonds due in annual installments ranging from $1,115,000 to $13,225,000 plus semi-annual interest ranging from 4.75 percent to 5.85 percent through July 1, 2030.	30,865,000

(Continued)

$29,320,000 2011 general obligation serial bonds due in annual installments ranging from $800,000 to $6,825,000 plus semi-annual interest ranging from 2 percent to 4.25 percent through July 1, 2031	$ 29,320,000
Total General Obligation Bonds	**$ 279,027,797**
Deferred amounts on refundings	2,486,152
Bonds not including deferred amounts on refunding	$ 281,513,949

Street and Highway User Revenue Bonds

$25,800,000 2002 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A, 2004 & 2005), due in annual principal installments ranging from $800,000 to $1,000,000, plus semi-annual interest ranging from 5.75 percent to 6.25 percent through July 1, 2012.	$ 1,000,000
$31,985,000 2002 street and highway user revenue refunding bonds, due in annual installments ranging from $40,000 to $6,270,000, plus semi-annual interest ranging from 2.0 percent to 5.0 percent through July 1, 2017.	25,968,147
$26,805,000 2003 street and highway user revenue bonds, due in annual principal installments ranging from $500,000 to $9,750,000, plus semi-annual interest ranging from 4.25 percent to 5.50 percent through July 1, 2022.	25,800,000
$9,585,000 2004 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2005), due in annual principal installments ranging from $100,000 to $225,000, plus semi-annual interest ranging from 4.00 percent to 5.00 percent through July 1, 2022.	1,375,000
$17,760,000 2004 street and highway user revenue refunding bonds, due in annual installments ranging from $20,000 to $7,250,000, plus semi-annual interest ranging from 3.5 percent to 5.0 percent through July 1, 2018.	17,196,159
$23,800,000 2005 street and highway user revenue refunding bonds, due in annual principal installments ranging from $25,000 to $8,000,000, plus semi-annual interest ranging from 2.75 percent to 5.0 percent through July 1, 2023.	22,858,756
$10,225,000 2005 street and highway user revenue bonds, due in annual principal installments ranging from $50,000 to $8,500,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	10,025,000
$11,675,000 2006 street and highway user revenue bonds, due in annual installments ranging from $850,000 to $9,850,000, plus semi-annual interest ranging from 4.50 percent to 5.25 percent through July 1, 2025.	11,675,000
$10,675,000 2007 street and highway user revenue bonds, due in annual principal installments ranging from $1,000,000 to $3,900,000, plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2027.	10,675,000
Total Street and Highway User Revenue Bonds	**$126,573,062**
Deferred amounts on refundings	1,941,938
Total Street and Highway User Revenue Bonds not including deferred amounts on refundings	$128,515,000

(Continued)

Special Assessment Bonds (payable from special assessments levied on the benefited properties)	
$5,025,000 2005 special assessment district bonds, due in annual principal installments of $335,000, plus semi-annual interest of 5.80 percent, through January 1, 2021.	$ 3,350,000
$4,091,840 2007 special assessment district bonds, due in annual principal installments ranging from $408,840 to $410,000, plus semi-annual interest of 5.0 percent, through January 1, 2017.	2,456,000
Total Special Assessment Bonds	**$ 5,806,000**
Total bonds payable recorded in governmental activities	**$411,406,859**

Classified in Business-type Activities on the government-wide financial statements:

General Obligation Bonds	
$120,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from $294 to $46,771, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	$ 23,027
$1,529,379 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $53,631 to $377,187, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016. Total bonds outstanding at June 30, 2007, include $54,062 of certificates of ownership of supplemental interest payments and $3,640 of capital appreciation maturing through 2010.	811,148
$214,700 2004 general obligation refunding serial bonds, due in annual principal installments ranging from $35,000 to $32,000,000, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2016.	214,125
$1,168,000 2006 general obligation refunding serial bonds, due in annual principal installments ranging from $6,574 to $518,254, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	1,161,430
Total General Obligation Bonds	**$ 2,209,730**
Deferred amounts on refundings	11,321
Total General Obligation Bonds not including deferred amounts on refunding	$ 2,221,051

Utility Systems Revenue Bonds	
$94,730,000 1997 utility systems revenue serial bonds (partially refunded by 1998, 2002 & 2006 utility systems revenue refunding bonds), due on July 1, 2012, plus semi-annual interest of 7.25 percent through July 1, 2012.	$ 4,000,000
$32,500,000 1998 utility systems revenue refunding serial bonds (partially refunded by 2002A, 2006 and 2008 utility systems revenue refunding bonds), due in annual	

(Continued)

principal installments ranging from $100,000 to $9,105,000, plus semi-annual interest ranging from 4.25 percent to 5.00 percent through July 1, 2013.	$ 18,446
$57,950,000 2002 utility systems revenue serial bonds (partially refunded by 2004 & 2006 utility systems revenue refunding bonds), due in annual principal installments ranging from $950,000 to $1,000,000, plus semi-annual interest ranging from 4.25 percent to 5.75 percent through July 1, 2017.	6,000,000
$129,000,000 2002 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $65,000 to $29,550,000, plus semi-annual interest ranging from 3.40 percent to 5.25 percent through July 1, 2017.	125,416,449
$48,850,000 2002A utility systems revenue refunding serial bonds, due in annual principal installments ranging from $40,000 to $17,890,000, plus semi-annual interest ranging from 3.00 percent to 5.00 percent through July 1, 2017.	45,704,775
$50,470,000 2003 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $970,000 to $25,500,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	23,000,000
$64,625,000 2004 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $1,125,000 to $11,000,000, plus semi-annual interest ranging from 5.00 percent to 6.00 percent through July 1, 2028.	6,125,000
$40,345,000 2004 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $20,000 to $21,010,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2019.	38,832,020
$91,200,000 2005 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $750,000 to $24,000,000, plus semi-annual interest ranging from 4.125 percent to 5.0 percent through July 1, 2029.	71,200,000
$105,400,000 2006 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $8,650,000 to $36,750,000, plus semi-annual interest ranging from 4.375 percent to 5.0 percent through July 1, 2030.	87,325,000
$61,300,000 2006 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $2,075,000 to $18,000,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2021.	55,334,720
$127,260,000 2006 (Series 2) utility systems revenue refunding serial bonds, due in annual principal installments ranging from $50,000 to $25,845,000 plus semi-annual interest ranging from 4.0 percent to 5.25 percent through July 1, 2028.	120,641,411
$65,550,000 2007 utility systems revenue serial bonds, due in annual principal installments ranging from $2,500,000 to $41,800,000 plus semi-annual interest ranging from 4.25 percent to 6.25 percent through July 1, 2031.	65,550,000
$52,875,000 2008 utility systems revenue serial bonds, due in annual principal installments ranging from $700,000 to $44,675,000 plus semi-annual interest ranging from 4.875 percent to 5.25 percent through July 1, 2032.	52,875,000

(Continued)

$21,125,000 2008 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $100,000 to $2,200,000 plus semi-annual interest ranging from 3.00 percent to 4.00 percent through July 1, 2018.	$ 18,741,858
$59,900,000 2009 utility systems revenue serial bonds, due in annual principal installments ranging from $900,000 to $48,250,000 plus semi-annual interest ranging from 5.875 percent to 6.375 percent through July 1, 2033.	59,900,000
$50,380,000 2010 utility systems revenue serial bonds, due in one principal installment plus semi-annual interest 6.10 percent through July 1, 2034.	50,380,000
$53,950,000 2011 utility systems revenue serial bonds, due in one principal installment plus semi-annual interest 5.0 percent through July 1, 2035.	53,950,000
Total Utility Systems Revenue Bonds	**$ 884,994,679**
Deferred amounts on refundings	13,805,321
Total Utility System Revenue Bonds not including deferred amounts on refundings	$ 898,800,000
Total bonds payable recorded in business-type activities	**$ 887,204,409**

The following tables summarize the City's debt service requirements to maturity for its long term bonds payable at June 30, 2011. The deferred amounts on refundings are not included.

Governmental Activities

	General Obligation Bonds				Highway User Revenue Bonds		
Fiscal Year	**Principal**	**Interest**	**Total**	**Fiscal Year**	**Principal**	**Interest**	**Total**
2012	$ 21,755,637	$ 12,762,594	$ 34,518,231	2012	$ 6,390,000	$ 6,028,242	$ 12,418,242
2013	22,888,905	11,752,560	34,641,465	2013	6,745,000	5,695,242	12,440,242
2014	15,157,029	10,678,535	25,835,564	2014	7,040,000	5,378,088	12,418,088
2015	12,239,033	10,065,060	22,304,093	2015	7,355,000	5,088,587	12,443,587
2016	13,033,766	9,560,162	22,593,928	2016	7,695,000	4,776,660	12,471,660
2017-21	79,419,579	36,383,013	115,802,592	2017-21	44,165,000	17,959,035	62,124,035
2022-26	56,320,000	22,482,173	78,802,173	2022-26	45,225,000	6,623,750	51,848,750
2026-30	60,700,000	8,364,984	69,064,984	2027-31	3,900,000	165,751	4,065,751
TOTALS	$ 281,513,949	$ 122,049,081	$ 403,563,030	TOTALS	$ 128,515,000	$ 51,715,355	$ 180,230,355

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Special Assessment Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 744,000	$ 297,160	$ 1,041,160
2013	744,000	257,280	1,001,280
2014	744,000	217,400	961,400
2015	744,000	177,520	921,520
2016	745,000	137,615	882,615
2017-21	2,085,000	253,125	2,338,125
TOTALS	$ 5,806,000	$ 1,340,100	$ 7,146,100

Business-type Activities

General Obligation Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 679,363	$ 103,843	$ 783,206
2013	706,095	70,521	776,616
2014	357,971	35,722	393,693
2015	210,967	21,061	232,028
2016	81,234	12,356	93,590
2017-21	185,421	16,578	201,999
2022-26	-	-	-
2027-31	-	-	-
2032-35	-	-	-
TOTALS	$ 2,221,051	$ 260,081	$ 2,481,132

Revenue Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 24,840,000	$ 44,646,039	$ 69,486,039
2013	34,030,000	43,316,037	77,346,037
2014	35,595,000	41,681,385	77,276,385
2015	37,595,000	39,860,812	77,455,812
2016	39,340,000	37,956,016	77,296,016
2017-21	163,115,000	162,707,471	325,822,471
2022-26	162,300,000	124,468,669	286,768,669
2027-31	203,230,000	83,270,047	286,500,047
2032-35	198,755,000	28,434,948	227,189,948
TOTALS	$ 898,800,000	$ 606,341,424	$ 1,505,141,424

Special Assessment Bonds

The City acts as trustee for special assessment districts whereby it collects the assessments levied against owners of property within established districts and disburses the amounts collected to retire the bonds issued to finance the improvements. At June 30, 2011, the special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, is adequate for the scheduled maturities of the bonds payable and the related interest.

Improvement bonds are collateralized by properties within the districts. In the event of default by the property owner, the City may enforce an auction sale to satisfy the debt service requirements of the improvement bonds. The City is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire

(Continued)

assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds. Special assessment bonds payable with governmental commitment currently outstanding as of June 30, 2011 are $5,806,000.

General Obligation Bonds
The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, $2,209,730 of these bonds at June 30, 2011 is carried as a liability of the Enterprise Fund to reflect the intention of retirement from resources of that fund.

All bonds, except Special Assessment Bonds, are callable by the City at various dates and at various premiums.

The Arizona Constitution provides that the general obligation bonded indebtedness of a city for general municipal purposes may not exceed 6 percent of the secondary assessed valuation of the taxable property in that city. In addition to the 6 percent limitation for general municipal purpose bonds, cities may issue general obligation bonds up to an additional 20 percent of the secondary assessed valuation for supplying such city with water, artificial light or sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds and recreation facilities, public safety, law enforcement, fire and emergency services facilities and streets and transportation facilities.

The total debt margin available July 1, 2011 is:

6% Bonds	$184,531,122
20% Bonds	354,445,979
Total Available	$538,977,101

City revenue bond indenture ordinances require that the net amount of revenues of the electric, gas, water, wastewater and solid waste systems (total revenues less operations and maintenance expenses) equal 120 percent of the principal and interest requirement in each fiscal year. The above covenant and all other bond covenants have been met.

c. **Reserves for Bond Indentures**

Pursuant to the provisions of the Bond Resolution of the City of Mesa Utility System Revenue and Refunding bonds, Replacement and Reserve Funds are required to be established, into which a sum equal to 2 percent of the gross revenues – as determined on a modified accrual basis – must be deposited until a sum equal to two percent of all tangible assets of the Utility System is accumulated. As of June 30, 2011, the amount provided in the Replacement and Extension Funds equaled $14,917,527 which is in compliance with the bond provisions.

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d. **Notes Payable**

Governmental Activities

The City issued $45,000,000 of Highway Project Advancement Notes to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the right-of-way acquisition and for design of highway improvements to State Route 802 between State Route 202L and Ellsworth Road. The City has entered into an intergovernmental agreement with ADOT and the Maricopa Association of Governments to advance the improvements to State Route 802. The agreement provides for repayment by ADOT to the City of the full amount of the City advance from monies available to ADOT for the project within a 60-month loan period. The repayments are not secured by any lien upon or pledge of any particular revenues, monies or property of ADOT. No assurance can be given that ADOT will have funds available for repayments due at the times or in the amounts set forth under the agreement.

Business Type Activities

The City has entered into a loan agreement with the State of Arizona Department of Transportation Aeronautics Division State Aviation Fund for the construction of T-Hangars at the airport. The interest rate on the notes is 6.02 percent.

The City entered into four separate loan agreements with the Water Infrastructure Finance Authority of Arizona. The purposes of the loans are to make improvements and upgrades to existing water and wastewater projects. The loans utilize funds from the United States Environmental Protection Agency pursuant to the federal American Reinvestment and Recovery Act of 2009. Subject to the City meeting the required specifications of the loan documents, two of the loans include a combined interest and fee rate subsidy and the two remaining loans include a principal forgiveness portion. Total principal (without principal forgiveness) is $3,486,902 and the loans have a 20 year repayment period. The total principal forgiveness is $626,000. Total interest over the 20 years with principal forgiveness and the combined interest and fee rate subsidy is $635,736.

(Continued)

The following table reflects the annual requirements to amortize all notes outstanding as of June 30, 2011:

	Governmental Activites			Business-type Activities		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest & Fees**	**Total**
2012	$ -	$ 1,512,500	$ 1,512,500	$ 237,489	$ 61,186	$ 298,675
2013	-	1,512,500	1,512,500	122,290	54,714	177,004
2014	-	1,512,500	1,512,500	124,945	52,058	177,003
2015	20,000,000	1,512,500	21,512,500	127,660	49,343	177,003
2016	25,000,000	812,500	25,812,500	130,437	46,567	177,004
2017-2021	-	-	-	696,079	188,939	885,018
2022-2026	-	-	-	775,570	109,448	885,018
2027-2029	-	-	-	516,655	23,611	540,266
TOTALS	$ 45,000,000	$ 6,862,500	$ 51,862,500	$ 2,731,125	$ 585,866	$ 3,316,991

e. **Lease Obligations**

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2011.

	Governmental Activities		
Fiscal Year	**Principal**	**Interest**	**Total**
2012	$ 1,344,046	$ 86,367	$ 1,430,413
2013	681,958	34,184	716,142
2014	67,953	6,581	74,534
2015	71,639	2,894	74,533
TOTALS	$ 2,165,596	$ 130,026	$ 2,295,622

(Continued)

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Land	$ -
Buildings	-
Other Improvements	1,363,821
Machinery & Equipment	11,030,807
Infrastructure	1,817,532
Construction Work in Process	1,090,568
Less: Accumulated depreciation	(11,839,707)
Total	$ 25,947,610

f. **Short-term Debt**

The City had no short-term debt activity for the fiscal year ended June 30, 2011.

7. LIABILITIES TO BE PAID FROM ASSETS HELD IN ESCROW

Liabilities to be paid from assets held in escrow include bonded debt of the City that has been provided for through an Advanced Refunding Bond Issue. Under an advanced refunding arrangement, refunding bonds are issued and the net proceeds, plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds.

In accordance with GASB Statement No. 7, the refunded debt outstanding at June 30, 2011 as reflected below is not included in the City's financial statements.

Utility System Revenue Bond Issue dated April 1, 1997	$ 7,000,000
Utility System Revenue Refunding Bond Issue dated March 1, 1998	5,890,000
Utility System Revenue Bond Issue dated March 1, 1998	13,125,000
Utility System Revenue Bond Issue dated March 1, 2003	25,500,000

(Continued)

Street and Highway User Revenue Bond Issue dated June 1, 2004	$ 8,000,000
Utility System Revenue Bond Issue dated June 1, 2004	58,500,000
Utility System Revenue Bond Issue dated June 1, 2005	20,000,000
Utility System Revenue Bond Issue dated June 1, 2006	18,075,000
Total Refunded Bonds Outstanding	$ 156,090,000

8. CAPITAL CONTRIBUTIONS

During the year, external capital contributions consisted of the following:

	Property Owners	Governmental Agencies	Developers	Total
Governmental Activities:				
Federal and State Funds	$ -	$ 17,161,330	$ -	$ 17,161,330
Contributions - Capital Assets	84,668	6,392,696	7,822,755	14,300,119
Total	$ 84,668	$ 23,554,026	$ 7,822,755	$ 31,461,449
Business-type Activities:				
Federal and State Funds	$ -	$ 3,294,629	$ -	$ 3,294,629
Developers - Impact and Development Fees	-	-	3,258,129	3,258,129
Contributions-In-Aid	708,161	-	-	708,161
Contributions - Capital Assets	-	-	3,513,069	3,513,069
Total	$ 708,161	$ 3,294,629	$ 6,771,198	$ 10,773,988

9. COMMITMENTS AND CONTINGENT LIABILITIES

a. <u>Pending Litigation</u>

The City is subject to a number of lawsuits, investigations, and other claims (some of which involve substantial amounts) that are incidental to the ordinary course of its operations, including those related to wrongful death and personal injury matters. Although the City Attorney does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon the settlement of such claims and lawsuits, some claims could be significant to the City's operations. While the ultimate resolution of such lawsuits, investigations, and claims cannot be determined at this time, in the opinion of City

(Continued)

management, based on the advice of the City Attorney, the resolution of these matters will not have a material adverse effect on the City's financial position.

b. **Sick Leave Benefits**

Sick leave benefits provided for ordinary sick pay are not vested with the employee. Fifty percent of unused benefits are payable only upon retirement of an employee. In accordance with the criteria, sick leave paid within 60 days of the year-end has been recorded as a liability in the governmental fund financial statements. Long-term liabilities of governmental funds are not shown on the fund financial statements. In the government-wide financial statements as well as the proprietary fund financial statements an amount of estimated sick pay to employees has been expensed and the liability is shown in the appropriate funds. These amounts have been calculated based on the vested method.

The total sick leave balance recorded as a liability at June 30, 2011, is $5,543,458.

10. ENTERPRISE ACTIVITIES OPERATIONS DETAIL

The Enterprise Fund includes operations of electricity, gas, water, wastewater, solid waste, airport, golf course, convention center, stadiums and district cooling. Although the City's Enterprise Fund does not meet the requirements for disclosing segment information, these services provided by the City are of such significance as to warrant certain additional disclosures. Operating revenue, expenses and operating income loss for the year ended June 30, 2011 for these services are as follows:

(Continued)

Functions		Operating Revenues		Depreciation and Amortization		Other		Operating Income (Loss)
Electric	$	33,138,456	$	2,982,802	$	23,455,135	$	6,700,519
Gas		41,369,805		3,037,528		30,306,602		8,025,675
Water		102,215,430		19,681,747		43,801,175		38,732,508
Wastewater		59,659,464		14,316,638		21,470,703		23,872,123
Solid Waste		47,537,833		2,292,728		29,096,080		16,149,025
Airport		3,317,542		1,577,362		2,379,968		(639,788)
Golf Course		2,250,256		262,787		2,335,861		(348,392)
Convention Center		2,825,693		18,180		3,807,523		(1,000,010)
Hohokam /Fitch Complex		6,161,320		648,329		7,673,706		(2,160,715)
Cubs Stadium		51,614		-		14,990		36,624
District Cooling		945,434		397,442		567,143		(19,151)
Total	$	299,472,847	$	45,215,543	$	164,908,886	$	89,348,418

11. NET ASSETS

a. Restricted Net Assets

The government-wide statement of net assets reports $95,169,292 of restricted net assets, of which $32,917,156 is restricted by enabling legislation.

b. Designated Net Assets

The net assets in the Employee Benefits Self Insurance Fund is designated for anticipated future losses and is a result of excess premiums charged to increase the fund balance specifically for this purpose.

c. Deficit Net Assets

The deficit in the Property and Public Liability Self-Insurance Fund is the result of the large increases in the estimated liability for claims during prior fiscal years. In addition contributions from the other funds have not increased since fiscal year 2007. A decrease in claims incurred but not reported calculated by the actuarial study resulted in a reduction of the deficit net assets during the fiscal year.

The deficit in the Workers Compensation Self-Insurance Fund was the result of a $1.7 million reduction in contributions to the fund during the year and a $3.6 million increase in liabilities. The

(Continued)

increase in liabilities was due to several adjustments to reported reserve amounts and increase in the number of claims filed and open at fiscal year end.

Contributions from the various funds will need to be increased in future years to cover these deficits.

12. PLEDGED REVENUES

a. Utility System Revenue Bonds

The City has pledged future utility customer revenues, net of specified operating expenses, to repay approximately $1.207 billion in utility system revenue bonds issued since 1997. Proceeds from the bonds provided financing for the construction of various utility related projects including new gas pipelines and water and wastewater treatment plants. The bonds are payable solely from utility customer net revenues and are payable through 2035. Annual principal and interest payments on the bonds were 63 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,505,141,424. Principal and interest paid for the current year and total customer net revenues were $55,398,598 and $93,479,850, respectively.

b. Highway User Revenue Bonds

The City has pledged future Highway User Taxes Revenue to repay $168.3 million in highway user revenue bonds issued since 2002. Proceeds from the bonds provided financing for streets projects. The bonds are payable solely from the state shared Highway User Tax revenues and are payable through 2027. Annual principal and interest payments on the bonds were 42 percent of eligible revenues. The total principal and interest remaining to be paid on the bonds is $180,230,355. Principal and interest paid for the current year and total highway user tax revenues were $12,395,243 and $32,052,757, respectively.

c. Special Assessment Bonds

The special assessment revenues collected by the City are pledged to repay $9.1 million of special assessment bonds issued since 2005. Proceeds from the bonds are used to finance improvements that property owners have agreed to pay. In the event of default by the property owner, an auction sale may be enforced by the City. If collections and auction proceeds are not sufficient to retire outstanding bonds the City is contingently liable. These bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to be covered 100% with collections from the property owners. The total principal and interest remaining to be paid on the bonds is $7,146,100. Principal and interest paid for the current year and total assessments collected were $1,081,040, and $1,088,465, respectively.

(Continued)

13. JOINT VENTURES

The City participates with the cities of Phoenix, Glendale, Scottsdale and Tempe in a multi-city sanitary sewer system (the "System") in which Phoenix is the lead agency. The City of Phoenix is responsible for the planning, budgeting, construction, operation and maintenance of the plant. As lead agency, Phoenix provides all management personnel and financing arrangements. The various cities participate in ownership of the plant and are charged for operating expenses based on gallons of flow. The different agencies participate in each facility at varying rates depending on their needs at the time each facility was constructed. The City's investment in the joint venture is reflected in the proprietary funds financial statements.

The System has no debt outstanding. Audited summary financial information on the System (GAAP basis) as of and for the fiscal year ended June 30, 2010 (latest information available) is as follows:

Assets	
Equity in Pooled Cash and Investments	$ 39,169,000
Receivables	12,680,000
Inventories at Average Cost	527,000
Capital Assets	923,885,000
Total Assets	976,261,000
Liabilities	43,434,000
Net Assets	$ 932,827,000
Total Revenues	$ 109,318,000
Total Expenses	(87,687,000)
Increase (Decrease) in Net Assets	$ 21,631,000

Separate financial statements for the activity under the Joint Venture agreement can be obtained through the AMWUA office at 3003 N. Central Avenue, Suite 1550, Phoenix, Arizona, 85012.

The City also participates with the City of Phoenix in a water treatment plant. The City of Phoenix is responsible for the planning, budgeting, construction, operation and maintenance of the plant. As lead agency, Phoenix provides all management personnel and financing arrangements. Phoenix and Mesa participate in ownership of the plant and are charged for operating expenses based on gallons of water treated. The City's investment in the joint venture is reflected in the proprietary funds financial statements.

(Continued)

The water treatment plant has no debt outstanding. Audited summary financial information for the plant (GAAP basis) as of and for the fiscal year ended June 30, 2010 (latest information available) is as follows:

Assets		
Equity in Pooled Cash and Investments	$	6,433,000
Receivables		9,816,000
Inventories		348,000
Capital Assets, Net of Accumulated Depreciation		251,282,000
Total Assets		267,879,000
Liabilities		11,850,000
Net Assets	$	256,029,000
Total Revenues	$	54,260,000
Total Expenses		(33,267,000)
Increase in Net Assets	$	20,993,000

Separate financial statements for the activity can be obtained through the City of Phoenix at 305 W. Washington Street, Phoenix, Arizona, 85003.

Construction of a joint water reclamation plant with the Towns of Gilbert and Queen Creek was completed on December 2, 2006. The City acts as the lead agency and is responsible for the planning, budgeting, construction, operation and maintenance of the plant. As lead agent, the City provides all management personnel and financing arrangements. Mesa, Gilbert and Queen Creek participate in ownership of the plant and are charged for operating expenses based on gallons of flow. The City's investment in the joint venture is reflected in the proprietary funds financial statements. Separate financial statements are not prepared.

Total investment in the joint venture as of June 30, 2011 is:

Mesa's Share	$ 69,672,048
Gilbert's Share	66,273,146
Queen Creek's Share	28,891,812
Total Joint Venture	$164,837,006

(Continued)

In June 2002, the City agreed to participate in the Central Phoenix/East Valley Light Rail Transit (LRT). The City participates with the cities of Phoenix, Tempe and Glendale. Valley Metro Rail, Inc. (VMR) will design, construct, and operate the LRT project. A total of $53,057,069 has been spent on this project through the fiscal year ended June 30, 2011. The City has received $43.5 million of funding from the Federal Transit Administration (FTA); Congestion Mitigation Air Quality (DMAQ) and Public Transit Funds (PTF) related to this project. The City's investment in the joint venture is reflected in the governmental activities column on the government-wide financial statements.

Audited summary financial information on the system (GAAP basis), as of and for the fiscal year ended June 30, 2010, (latest information available) is as follows:

Assets	
Current Assets	$ 102,712,169
Non Current Assets	1,213,821,644
Total Assets	1,316,533,813
Liabilities	137,801,285
Net Assets	$ 1,178,732,528
Total Revenues	$ 183,482,980
Total Expenses	(192,607,118)
Decrease in Net Assets	$ (9,124,138)

Separate financial statements for the activity can be obtained through Valley Metro Rail Inc. at 101 North First Avenue, Suite 1300, Phoenix, Arizona, 85003.

In March 2010, the Mesa City Council approved a 3 mile extension of the LRT system and in August 2010, the Federal Transit Administration approved the alignment for project development as the next step toward federal funding. The extension begins at the eastern limits of METRO's existing light rail system (Sycamore) and extends east on Main Street to Mesa Drive. The entire extension is within the City of Mesa. There are four stations on Main Street including a station at Alma School Road, Country Club Drive, Center Street, and Mesa Drive.

The extension is planned to open in 2016 with ridership estimated at approximately 4,750 riders per day. The total capital cost of the project is $198.5 million to be funded with a combination of federal and regional funds.

(Continued)

In August 2008, the City of Mesa, the City of Apache Junction, Apache Junction Fire District the Town of Gilbert, and the Town of Queen Creek (the Parties) entered into an intergovernmental agreement to plan, design, construct, operate, maintain and finance the TOPAZ Regional Wireless Cooperative Network (Trunked Open Arizona Network – 700/800 MHz Network procured and built by the City of Mesa). The City acts as the lead agency and is responsible for the planning, budgeting, construction, operation and maintenance of the network. As lead agent, the City provides all management personnel and financing arrangements. The Parties participate in ownership of the network and are charged for operating and capital expenses based on subscriber units (radio counts). The City's investment in the joint venture is reflected in the governmental funds financial statements. Separate financial statements are not prepared.
Total investment in the joint venture as of June 30, 2011 is:

City of Mesa	$ 831,862
Town of Gilbert	224,785
City of Apache Junction	48,687
Apache Junction Fire District	23,063
Town of Queen Creek	8,387
Total Joint Venture	$ 1,136,784

14. SUBSEQUENT EVENTS

On October 12, 2011 the City issued $77,835,000 of Highway Project Advancement Notes to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the construction of State Route 24 between State Route 202L and Ellsworth Road. The bonds mature on July 1, 2021 and the total interest is $30,421,148. The City has entered into an intergovernmental agreement with ADOT and the Maricopa Association of Governments to advance the improvements to State Route 24. The agreement provides for repayment of ADOT to the City of the full amount of the City advance from monies available to ADOT for the project within a 60-month loan period. The repayments are not secured by any lien upon or pledge of any particular revenues, monies or property of ADOT. No assurance can be given that ADOT will have funds available for repayments due at the times or in the amounts set forth under the agreement.

(Concluded)

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BOOK-ENTRY-ONLY SYSTEM

This information concerning DTC and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the accuracy thereof. The Beneficial Owners (defined below) should confirm this information with DTC or the DTC participants.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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 securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). DTC has a rating of "AA+" from Standard & Poor's." 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 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 Participant 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 Participants 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 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 Participants 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 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and 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 Registrar and Paying Agent, 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, the City or the Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and 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 Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered through its Participant to the Registrar and Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interests in the Bonds, on DTC's records, to the Registrar and Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to Registrar and Paying Agent's DTC account.

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 Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

NONE OF THE CITY, THE REGISTRAR OR THE FINANCIAL ADVISOR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS, OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE BOND RESOLUTION; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST OR PAYMENT AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OR INTEREST OR PAYMENT AMOUNT DUE WITH RESPECT TO THE BONDS; (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (5) ANY OTHER MATTERS.

APPENDIX E

FORM OF APPROVING LEGAL OPINION

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April 4, 2012

MAYOR AND COUNCIL
CITY OF MESA
MARICOPA COUNTY, ARIZONA

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the "*City*"), of its $36,090,000 aggregate principal amount of Street and Highway User Revenue Refunding Bonds, Series 2012, dated March 1, 2012 (the "*Bonds*"), issued pursuant to Title 48, Chapter 4, Article 5, Arizona Revised Statutes, and all amendments thereto (the "*Act*").

We have examined the law and such documents and matters as we have deemed necessary to render this opinion, including, without limitation, the resolution authorizing the issuance of the Bonds (the "*Bond Resolution*"), passed and adopted by the Mayor and Council of the City. As to questions of fact material to our opinion we have relied upon, and assumed due and continuing compliance with the provisions of, the proceedings and other documents, and have relied upon certifications, covenants and representations furnished to us without undertaking to verify the same by independent investigation, except such investigation as we deemed necessary to determine that they were not unreasonable, including, without limitation, those with respect to causing interest on the Bonds to be and remain excluded from gross income for federal income tax purposes.

Based upon the foregoing, we are of the opinion, as of this date, which is the date of initial delivery of the Bonds against payment therefor, that:

1. The Bond Resolution has been duly passed and adopted by the Mayor and Council of the City and is valid and binding upon and enforceable against the City.

2. The Bond Resolution creates, for the security of the Bonds, a pledge of the revenues derived by the City from taxes, fees, charges or other moneys collected by the State and returned to the City for street and highway purposes, pursuant to Title 28, Chapter 18, Article 2 of the Arizona Revised Statutes, as amended (the "*Pledged Revenues*"). The provisions of Title 28, Chapter 18, Article 2 of the Arizona Revised Statutes, as amended, provide that the City must take certain actions in order to be eligible to receive in any fiscal year moneys collected by the State and returned to the City for street and highway purposes. The City has covenanted in the Bond Resolution to take such actions. The Bonds will rank on a parity as to claim upon the Pledged Revenues with the City's Street and Highway User Revenue Bonds, Series 1997; Street and Highway User Revenue Refunding Bonds, Series 2002; Street and Highway User Revenue Bonds, Series 2003; Street and Highway User Revenue Refunding Bonds, Series 2004; Street and Highway User Revenue Bonds, Series 2004; Street and Highway User Revenue Refunding Bonds, Series 2005; Street and Highway User Revenue Bonds, Series 2005, Street and Highway User Revenue Bonds, Series 2006 and Street and Highway User Revenue Bonds, Series 2007.

3. The Bonds have been duly authorized and delivered by the City and are valid and binding limited obligations of the City payable solely from the sources mentioned in the foregoing paragraph. Neither the general credit nor any property of the City other than as provided in the Bond Resolution has been pledged or committed to the payment of the Bonds. The Bonds are not secured by an obligation or pledge of any taxing power or moneys raised thereby and are not a debt of and do not constitute a pledge of the faith and credit of the City.

4. Under existing laws, regulations, rulings and judicial decisions, the interest income on the Bonds is excluded from gross income for the purpose of calculating federal income taxes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of tax preference to be included in computing the alternative minimum tax of individuals or corporations; however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain

corporations, which income is subject to the federal alternative minimum tax. The Bonds are not private activity bonds within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended (the "*Code*"). We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The Code imposes various restrictions, conditions and requirements relating to the continued exclusion of interest income on the Bonds from gross income for federal income tax purposes, including a requirement that the City rebate to the federal government certain of the investment earnings with respect to the Bonds. Failure to comply with such restrictions, conditions and requirements could result in the interest income on the Bonds being included as gross income for federal income tax purposes from their date of issuance. The City has covenanted to comply with the restrictions, conditions and requirements of the Code necessary to preserve the tax-exempt status of the Bonds. For purposes of this opinion we have assumed continuing compliance by the City with such restrictions, conditions and requirements.

The rights of the owners of the Bonds and the enforceability of those rights may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and the enforcement of those rights may be subject to the exercise of judicial discretion in accordance with general principles of equity.

GUST ROSENFELD P.L.C.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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$36,090,000
CITY OF MESA, ARIZONA
STREET AND HIGHWAY USER REVENUE
REFUNDING BONDS, SERIES 2012

CONTINUING DISCLOSURE CERTIFICATE
(CUSIP Base No. 590536)

This Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the City of Mesa, Arizona (the "*City*") in connection with the issuance of Street and Highway User Revenue Refunding Bonds, Series 2012 (the "*Bonds*"). In consideration of the initial sale and delivery of the Bonds, the City covenants as follows:

Section 1. **Purpose of the Disclosure Certificate**. This Disclosure Certificate is for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (as hereinafter defined).

Section 2. **Definitions**. Any capitalized term used herein shall have the following meanings, unless otherwise defined herein:

"*Annual Report*" shall mean the annual report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Bond Counsel*" shall mean Gust Rosenfeld P.L.C. or such other nationally recognized bond counsel as may be selected by the City.

"*Bondholder*" shall mean any registered owner or beneficial owner of the Bonds.

"*Dissemination Agent*" shall mean the City or any person designated in writing by the City as the Dissemination Agent.

"*EMMA*" shall mean the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of MSRB, or any successor thereto approved by the United States Securities and Exchange Commission, as a repository for municipal continuing disclosure information pursuant to the Rule.

"*Listed Events*" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

"*Official Statement*" shall mean the final official statement dated March 1, 2012 relating to the Bonds.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. **Provision of Annual Reports**.

(a) The City shall, or shall cause the Dissemination Agent to, not later than February 1 of each year (the "*Filing Date*"), commencing February 1, 2013, provide electronically to MSRB, in a format prescribed by MSRB, an Annual Report for the fiscal year ending on the preceding June 30 which is consistent with the requirements of Section 4 of this Disclosure Certificate. Currently, filings are required to be made with EMMA. Not later than fifteen (15) business days prior to such Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

(b) If the City is unable or for any reason fails to provide electronically to EMMA an Annual Report or any part thereof by the Filing Date required in subsection (a) above, the City shall promptly send a notice to EMMA in substantially the form attached as *Exhibit A* not later than such Filing Date.

(c) If the City's audited financial statements are not submitted with the Annual Report and the City fails to provide to EMMA a copy of its audited financial statements within 30 days of receipt thereof by the City, then the City shall promptly send a notice to EMMA in substantially the form attached as *Exhibit B*.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date(s) for providing the Annual Report and audited financial statements the proper address of EMMA; and

(ii) if the Dissemination Agent is other than the City, file a report or reports with the City certifying that the Annual Report and audited financial statements, if applicable, have been provided pursuant to this Disclosure Certificate, stating the date such information was provided and listing where it was provided.

Section 4. Content of Annual Reports.

(a) The Annual Report may be submitted as a single document or as separate documents comprising an electronic package, and may incorporate by reference other information as provided in this Section, including the audited financial statements of the City; provided, however, that if the audited financial statements of the City are not available at the time of the filing of the Annual Report, the City shall file unaudited financial statements of the City with the Annual Report and, when the audited financial statements of the City are available, the same shall be submitted to EMMA within 30 days of receipt by the City.

(b) The City's Annual Report shall contain or incorporate by reference the following:

(i) Type of Financial and Operating Data to be Provided:

(A) Subject to the provisions of Sections 3 and 4(a) hereof, annual audited financial statements for the City.

(B) Annually updated financial information and operating data of the type contained in the following subsections of the Official Statement:

(I) City of Mesa, Arizona, Highway User Revenue Receipts;
(II) State of Arizona Highway User Revenues;
(III) Street and Highway User Revenue Bond Debt Service Requirements and Debt Service Coverage;
(IV) Appendix A, table titled "POPULATION STATISTICS".

(C) In the event of an amendment pursuant to Section 8 hereof not previously described in an Annual Report, an explanation, in narrative form, of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided and, if the amendment is made to the accounting principles to be followed, a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles, including a qualitative discussion of the differences, and the impact on the presentation and, to the extent feasible, a quantitative comparison.

(ii) Accounting Principles Pursuant to Which Audited Financial Statements Shall Be Prepared: The audited annual financial statements shall be prepared in accordance with generally accepted accounting principles and state law requirements as are in effect from time to time. A more complete description of the accounting principles currently followed in the preparation of the City's audited annual financial statements is contained in Note 1 of the audited financial statement included within the Official Statement.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from EMMA. The City shall clearly identify each such other document so incorporated by reference.

Section 5. **Reporting of Listed Events**.

This Section 5 shall govern the giving of notices by the City of the occurrence of any of the following events with respect to the Bonds, and the City shall in a timely manner, not in excess of ten business days after the occurrence of the event, provide notice of the following events with EMMA:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service (the "*IRS*") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds;
(7) Modifications to rights of Bondholders, if material;
(8) Bond calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the City;
(13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material

Note to Paragraph (12) above: For the purposes of the event identified in paragraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. **Termination of Reporting Obligation**. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Such termination shall not terminate the obligation of the City to give notice of such defeasance or prior redemption.

Section 7. **Dissemination Agent**. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. **Amendment**. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate if:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature or status of the City, or the type of business conducted;

(b) This Disclosure Certificate, as amended, would, in the opinion of Bond Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Bondholders, as determined by Bond Counsel.

Notice of any amendment to the accounting principles shall be sent within 30 days to EMMA.

Section 9. **Filing with EMMA**. The City shall, or shall cause the Dissemination Agent to, electronically file all items required to be filed with EMMA.

Section 10. **Additional Information**. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. **Default**. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any Bondholder may seek specific performance by court order to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance and such failure shall not constitute a default under the Bonds or the resolution authorizing the Bonds.

Section 12. **Compliance by the City**. The City hereby covenants to comply with the terms of this Disclosure Certificate. The City expressly acknowledges and agrees that compliance with the undertaking contained in this Disclosure Certificate is its sole responsibility and the responsibility of the Dissemination

Agent, if any, and that such compliance, or monitoring thereof, is not the responsibility of, and no duty is present with respect thereto for, the Participating Underwriter, Bond Counsel or the City's financial advisor.

Section 13. **Subject to Appropriation**. Pursuant to Arizona law, the City's undertaking to provide information under this Disclosure Certificate is subject to appropriation, solely from its Highway User Revenues or such funds as the City chooses, to cover the costs of preparing and sending the Annual Report and notices of material events to EMMA. Should funds that would enable the City to provide the information required to be disclosed hereunder not be appropriated, then notice of such fact will be made in a timely manner to EMMA in the form of *Exhibit C* attached hereto.

Section 14. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 15. **Governing Law**. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under the Rule and the federal securities law.

Date: April 4, 2012

CITY OF MESA, ARIZONA

By______________________________________

Its__Senior Executive Manager______________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $36,090,000 Street and Highway User Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590536

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated April 4, 2012. The City anticipates that the Annual Report will be filed by ______________________.

Dated:

City of Mesa, Arizona

By____
Its ____

EXHIBIT B

NOTICE OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $36,090,000 Street and Highway User Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590536

NOTICE IS HEREBY GIVEN that the City failed to provide its audited financial statements with its Annual Report or, if not then available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated April 4, 2012, with respect to the above-named Bonds. The City anticipates that the audited financial statements for the fiscal year ended June 30, ____ will be filed by ______________________.

Dated:

City of Mesa, Arizona

By____
Its ____

EXHIBIT C

NOTICE OF FAILURE TO APPROPRIATE FUNDS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $36,090,000 Street and Highway User Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590536

NOTICE IS HEREBY GIVEN that the City failed to appropriate funds necessary to perform the undertaking required by the Disclosure Certificate dated April 4, 2012.

Dated: ________________

City of Mesa, Arizona

____
Its____

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WEDBUSH