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" herein.

$31,580,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING BONDS, SERIES 2012

Dated**:** Date of Delivery ***Due*****:** July 1, as shown on the inside front cover

The City of Mesa, Arizona (the "City") Utility Systems 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 related to issuance of the Bonds. See "PLAN OF REFUNDING" herein.

Interest on the Bonds will be payable semiannually on July 1 and January 1 of each year, commencing July 1, 2012, until maturity and principal of the Bonds will be payable in accordance with the maturity schedule set forth on the inside front cover. 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 F –"Book-Entry-Only System" herein.

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

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of its water, electrical, natural gas, wastewater and solid waste systems (collectively, the "System") after provision has been made for payment of the reasonable and necessary costs of the operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), and on a parity of lien on such Net Revenues with the Parity Bonds (as defined herein), now outstanding and hereafter issued. **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 from the Net Revenues. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.**

See Inside Front Cover for Maturity Schedule and Additional Information

The Bonds are offered when, as and if issued by the City and paid for by the Underwriter, 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 this 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

$31,580,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING BONDS, SERIES 2012

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2016	$4,050,000	4.00%	1.05%
2016	5,100,000	5.00	1.05
2017	7,525,000	4.00	1.23
2020	2,070,000	4.00	2.14
2020	5,370,000	5.00	2.14
2021	1,300,000	4.00	2.40
2021	6,165,000	5.00	2.40

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"), Utility Systems 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 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 the System (as defined herein), 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 or the System (as defined herein). 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 the 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 H – "Form of Continuing Disclosure Certificate," pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, 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

$31,580,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS 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 issuance of $31,580,000 Utility Systems 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 ("DTC"), a registered securities depository. 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. Beneficial interests in the Bonds will be offered for sale in integral multiples of $5,000, and payments of principal of and interest on the Bonds will be made through participants in the DTC system. See APPENDIX F – "Book-Entry-Only System."

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts by the City from the System (as defined below), 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 or the System. 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.

Certain words and terms used herein and not otherwise defined herein shall have the meanings ascribed to such words and terms in APPENDIX E – "Summaries of the Master Resolution – Definitions."

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 A.R.S. Title 9, Chapter 5, Article 3 as amended; Resolution No. 6362 adopted by the Mayor and Council of the City on July 29, 1991 (the "Master Resolution"); as heretofore amended and supplemented by twenty-two supplemental resolutions heretofore adopted by the Mayor and Council of the City pertaining to the issuance of outstanding bonds secured by the Net Revenues of the System (each as defined herein); and as further amended and supplemented by a Twenty-Third Supplemental Resolution adopted by the Mayor and Council of the City on January 23, 2012 (the "Twenty-Third Supplemental Resolution"), authorizing the issuance of the Bonds (collectively, the "Supplemental Resolutions" and, together with the Master Resolution, the "Bond Resolution"). The Bonds will be issued as Parity Bonds (as hereafter defined) pursuant to the provisions of the Bond Resolution. (See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" and APPENDIX E – "Summaries of the Master Resolution," herein.) 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 related to the issuance of the Bonds.

In addition to the Bonds, the City expects to issue contemporaneously with the Bonds $31,665,000 General Obligation Refunding Bonds, Series 2012 and $36,090,000 Street and Highway User 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 Taxable Utility Systems Revenue Refunding Bonds, Series 2012 (the "Series 2012 Taxable Refunding Bonds"), approximately $33,400,000 General Obligation Bonds, Series 2012 and approximately $62,425,000 Utility Systems Revenue Bonds, Series 2012, each pursuant to separate official statements.

Summaries of the Master Resolution are included in APPENDIX E of this Official Statement. Such summaries do not purport to be comprehensive or definitive. All references herein to the Master Resolution are qualified in their entirety by reference to the full text of such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Master Resolution and the Twenty-Third Supplemental Resolution. All capitalized terms appearing in this Official Statement and not otherwise defined shall have the meanings ascribed to them in the Bond Resolution. Copies of the Master Resolution and the Twenty-Third Supplemental Resolution may be inspected at the office of the City Controller, 20 East Main Street, Suite 350, Mesa, Arizona 85201.

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. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the inside front cover page of this Official Statement. 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 be issued only in fully-registered form in denominations of $5,000 or any integral multiples thereof, and will initially be registered in the name of Cede & Co., as nominee of the DTC. For a description of registration and transfer of the Bonds through the facilities of DTC, see APPENDIX F – "Book-Entry-Only System."

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THE OFFICIAL STATEMENT, EXCEPT THOSE UNDER THE HEADINGS "TAX EXEMPTION" AND "BOND PREMIUM", TO THE OWNERS OF 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 registrar and paying agent for the Bonds (the "Registrar" and the "Paying Agent"). The City may change the 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 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 of the Bonds at the designated 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 ten (10) 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.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of its water, electrical, natural gas, wastewater and solid waste systems (collectively, the "System") after provision has been made for the payment from such revenues of the reasonable and necessary expenses of operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), on a parity of lien on such Net Revenues with the City's outstanding Utility Systems Revenue Bonds, previously issued in twenty-two separate series and to be outstanding following issuance of the Bonds in the aggregate principal amount of $909,253,330 (collectively, with the Bonds, the "Parity Bonds") See "COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE," APPENDIX C –

"City of Mesa, Arizona – Utility Systems Information" and APPENDIX E – "Summaries of the Master Resolution."

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 from the Net Revenues.

Following deposit of monies into the Bond Fund, the City may invest such monies in Permitted Investments. ***THE PROCEEDS OF THE BONDS ARE NOT PLEDGED TO, NOR DO THEY SECURE, PAYMENT OF THE BONDS.***

Rate Covenant

Pursuant to the Bond Resolution, the City covenants and agrees with the owners of the Bonds that it will establish and maintain rates, fees and other charges for all services supplied by the System to provide Revenues fully sufficient at all times, after making reasonable allowance for contingencies and errors in estimates, to pay all Operating Expenses and to produce an aggregate amount of Net Revenues in each Fiscal Year at least equal to one hundred twenty percent (120%) of the current principal and interest requirements on all Outstanding Parity Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Parity Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and said rates, fees and other charges shall also be established and maintained at rates sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year.

Reserve Fund; No Current Funding Requirement

The Bond Resolution establishes a Reserve Fund for the benefit of all Parity Bonds, including the Bonds, issued and delivered subsequent to January 1, 2003 (the "Post-2002 Bonds"). To the extent the Reserve Fund is funded for the Post-2002 Bonds (the "Post-2002 Reserve Fund"), the moneys therein will be available to pay principal of or interest on the Post-2002 Bonds in the event and to the extent moneys on deposit in the Bond Fund on any principal or interest payment date are insufficient for such purpose. The Post-2002 Reserve Fund is not currently funded and is required to be funded only if Net Revenues during any Fiscal Year do not equal or exceed one hundred seventy-five percent (175%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year. If Net Revenues do not equal or exceed 175% of such principal and interest, then the City will deposit, or cause to be deposited, within 180 days following the end of such Fiscal Year, to the Post-2002 Reserve Fund, moneys, investments, Post-2002 Reserve Fund Guaranties or any combination thereof, equal to the Post-2002 Reserve Requirement. If, thereafter, Net Revenues for two consecutive Fiscal Years equal or exceed one hundred seventy-five percent (175%) of the principal and interest requirements on all Outstanding Bonds for the respective corresponding Bond Years, any moneys, investments or Post-2002 Reserve Fund Guaranties in the Post-2002 Reserve Fund may be released and (except as otherwise limited by the terms of such Reserve Fund Guaranties or the related Reserve Fund Guaranty Agreements) used by the City for any lawful purpose, and the City's obligation to maintain the Post-2002 Reserve Fund will terminate, subject, however, to the provisions described in the preceding sentence for re-funding the Post-2002 Reserve Fund. The Master Resolution, as amended, also created a reserve fund for Parity Bonds issued prior to January 1, 2003 (the "Pre-2003 Reserve Fund"). Owners of the Post-2002 Bonds, including the Bonds, will have no claim on the Pre-2003 Reserve Fund.

Additional Parity Bonds

The Bonds will constitute an additional series of Parity Bonds under the Bond Resolution and will be issued in compliance with the requirements of the Bond Resolution described in the next succeeding paragraph for the issuance of additional Parity Bonds ("Additional Parity Bonds").

Additional Parity Bonds may be issued on a parity with the Bonds only if the Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Additional Parity Bonds have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all Parity Bonds to be outstanding immediately after issuance of such Additional Parity Bonds and said Net Revenues must also be sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of depreciation and the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year as shown by a certificate signed by the City's Senior Executive Manager. For the purposes of this computation, additional amounts may be added to the Net

Revenues of the preceding Fiscal Year, as follows: (i) if all or part of the proceeds of the Additional Parity Bonds are to be expended for the acquisition of existing water, wastewater, natural gas, electrical or solid waste (garbage and rubbish) properties for the System, there may be added to the Net Revenues of such preceding Fiscal Year the net revenues derived from the operation of such existing water, wastewater, gas, electrical or solid waste (garbage and rubbish) system properties during the immediately preceding Fiscal Year as estimated by an engineer or engineering firm which shall have a wide and favorable reputation in respect to such matters, and (ii) if during such preceding Fiscal Year, the City shall have increased its System rates or charges, there may be added to the Net Revenues of such Fiscal Year the increased amount of Net Revenues which would have been received from the operation of the System during such Fiscal Year had such increase been in effect throughout such Fiscal Year, such increased amount of Net Revenues to be estimated by an engineer or engineering firm which shall have a wide and favorable reputation in respect to such matters.

The City expects to issue Additional Parity Bonds in the future pursuant to existing and future voted bond authorizations and pursuant to additional and supplemental resolutions. The City expects to issue approximately $62,425,000 principal amount of such Additional Parity Bonds in the second calendar quarter of 2012 pursuant to a separate official statement.

The City is currently authorized to issue $223,188,190 of Parity Bonds, pursuant to voter approval given at special bond elections held on March 29, 1994, November 7, 2006 and November 2, 2010. The purposes and amounts of such authorized but unissued Parity Bonds are set forth below.

Purpose of Utility Systems Revenue Bond Authorization	**Remaining 1994 Bond Authorization***	**Remaining 2006 Bond Authorization**	**Remaining 2010 Bond Authorization**	**Remaining Systems Revenue Bonds Authorized But Unissued**
Gas System Improvements	$ 0	$ 0	$ 37,995,000	$ 37,995,000
Water System Improvements	0	402	96,980,000	96,980,402
Wastewater System Improvements	0	28,202,788	39,000,000	67,202,788
Electric System Improvements	0	0	13,340,000	13,340,000
Solid Waste System Improvements*	7,670,000*	0	0	7,670,000
Total	$ 7,670,000*	$28,203,190	$187,315,000	$223,188,190

* Utility systems bonds remaining authorized but unissued from the City's March 29, 1994 special election may, at the option of the City, be issued as either general obligation bonds or utility systems revenue bonds.

The City may also issue Additional Parity Bonds for refunding purposes pursuant to additional supplemental resolutions. The City expects to issue approximately $76,540,000 Taxable Utility Systems Revenue Refunding Bonds, Series 2012 (the "Series 2012 Taxable Refunding Bonds") in the second calendar quarter of 2012 pursuant to a separate official statement.

Subordinate Lien Obligations

The Bond Resolution does not prohibit the City from issuing or incurring bonds or other obligations which are payable from and secured by Net Revenues on a basis junior and subordinate to the lien upon such Net Revenues in favor of the Bonds and other Parity Bonds.

COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE

The following table sets forth a record of the combined schedules of annual revenues, expenditures and Net Revenues for the most recent five fiscal years - followed by a statement of utility system revenue bond debt service requirements and debt service coverage provided by such Net Revenues for each fiscal year.

	2010/11	2009/10	2008/09	2007/08	2006/07
System Revenues:*					
Electric System	$ 33,439,877	$ 33,296,661	$ 36,292,878	$ 35,467,407	$ 35,432,763
Gas System	41,564,836	38,908,250	42,169,355	47,043,655	45,842,250
Water System	105,623,606	104,521,474	100,335,358	118,379,431	99,197,101
Wastewater System	61,810,699	59,831,789	57,156,489	61,281,966	61,153,014
Solid Waste System	47,818,140	46,869,322	46,889,860	47,074,582	43,640,925
Total System Revenues	$ 290,257,158	$ 283,427,496	$ 282,843,940	$ 309,247,041	$ 285,266,053
System Expenses:*					
Electric System	$ 22,141,338	$ 21,851,913	$ 23,836,816	$ 25,265,582	$ 22,733,164
Gas System	27,953,350	27,064,001	29,164,032	37,227,816	34,335,024
Water System	35,202,564	37,779,141	35,086,549	40,624,635	36,182,814
Wastewater System	19,481,237	21,151,463	21,075,812	22,682,057	21,502,197
Solid Waste System	26,534,703	25,963,715	27,569,339	28,160,851	26,209,526
Total System Expense	$ 131,313,192	$ 133,810,233	$ 136,732,548	$ 153,960,941	$ 140,962,725
Net Income Available For Debt Service (Net Revenues)	$ 158,943,966	$ 149,617,263	$ 146,111,392	$ 155,286,100	$ 144,303,328
Utility Systems Revenue Bond Debt Service Requirements	$ 55,398,585	$ 50,854,631	$ 47,039,639	$ 42,618,198	$ 29,644,976
Approximate Debt Service Coverage Provided By Net Revenues	2.87x	2.94x	3.11x	3.64x	4.87x

* System revenues include all income, moneys and receipts derived by the City from the ownership, use and operation of the System. Such revenues include operating revenues, interest income and other miscellaneous revenues. System expenses are the reasonable and necessary costs of System operation, maintenance and repair, but exclude depreciation and debt service expenses. System revenues and expenses indicated in the above schedule are set forth on a modified accrual basis, recognizing revenues when they become measurable and available and expenses when incurred.

Source: City of Mesa, Arizona Financial Services Department.

Historically, the City has annually transferred a portion of the Net Revenues to the City's general fund after providing for payment of the current debt service requirements of all Parity Bonds and utility systems – supported general obligation bonds. In fiscal year 2010/11, such transfer occurred in the amount of approximately $83.6 million. The City expects to continue this practice in the future.

RISK FACTORS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all the information presented herein. The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Bonds.

<u>Additional Bonds and Other Obligations of City</u>. The City has the capacity to enter into other obligations which are payable from the Net Revenues of the System and which are on a parity with the Bonds. To the extent that

Additional Parity Bonds or other obligations are issued or incurred by the City, the funds available to make the debt service payments on the Bonds may be decreased.

Economic Downturns; Adverse Effects on System Revenues. A number of factors, many of which may be beyond the control of the City, could have an adverse impact on the level of Net Revenues of the System, including adverse changes in the national economy, the Arizona economy, and interest rate levels.

Costs of System Operation and Availability of Materials. The production of Net Revenues from the System could be affected by the costs of operating and maintaining the System, including the availability and price of commodities could be materially adversely affected by factors beyond the control of the City, such as strikes, energy shortages, material shortages, inflation, adverse weather conditions , changes in state or federal law and other contingencies. In addition, there are financial risks associated with purchase of wholesale gas and electric energy and associated transmission capacity, including potential instability of market participants.

Factors Affecting the Utility Industry. The utility industry has been, and in the future may be, affected by a number of factors which could impact electric, gas, water and wastewater utilities. Such factors include, among others: (i) effects of compliance with rapidly changing environmental, health, safety, licensing, regulatory and legislative standards and requirements, (ii) changes resulting from conservation and demand- side management programs on the timing and use of commodities, (iii) "self" or "co" generation" by certain electric customers (iv) other changes in actual demand from projected future requirements and (v) issues relating to issuance of tax-exempt obligations and restrictions thereon.

Impact of Electric Deregulation, Open Access and Reliability Standards. The impact of deregulation of the electric utility industry on the City is not conclusively resolved. See "Electrical Utility Industry Deregulation" in APPENDIX C – "City of Mesa Utilities Systems Information".

The Energy Policy Act of 1992 resulted in fundamental changes in the federal laws and regulations related to the electric utility industry, particularly in the area of transmission access. However, the City generally is excluded from the provisions of these laws as it is not a "public utility" as defined therein. Additionally, the City does not have any transmission service or power supply arrangements that would otherwise make it subject it to open access transmission service and tariff requirements under the Federal Power Act as amended.

Comprehensive energy legislation was also passed in 2005 (the "2005 Energy Policy Act") which provided in part that an "electric reliability organization" ("ERO") should, subject to FERC approval, develop reliability standards for operation of the bulk electric power system. FERC subsequently certified the North American Electric Reliability Council ("NERC") as the nation's ERO and approved various NERC reliability standards. However, the City exclusively provides local distribution of electric energy to retail customer loads and does not operate generation resources, interconnections, transmission lines, or other facilities which would make it subject to current reliability standard compliance requirements, consistent with FERC Order 743A issued in 2011.

Pipeline Safety Control Room Management/Human Factors Regulations. The Pipeline and Hazardous Materials Safety Administration adopted certain rules regarding human factors and other aspects of control room management applicable to certain gas pipeline operators which became effective in 2011. The City has implemented procedures consistent with all currently applicable control room requirements.

Pending Litigation Involving the Water and Wastewater Utility Operations. The City is a claimant in the pending Arizona General Stream Adjudication (the "Adjudication"), a decades-long judicial proceeding to determine the extent and priority of water rights in the Gila and Little Colorado River systems. The City has participated as a party in the settlement of the claims of a number of Native American Communities, including the Gila River Indian Community, the White Mountain Apache Tribe, and the Salt River Pima-Maricopa Indian Community (which borders the City on the north). Although a number of significant claims have been resolved through these settlements, other claims of non-Indian parties, including the City remain outstanding, and the future results of the Adjudication could impact City water utility operations.

The City is also a party to the proceeding in the Arizona Navigable Stream Adjudication (NSA) regarding the Salt River. The NSA deals with matters relating to whether the State of Arizona retains title to the beds of Arizona rivers and streams based on their navigability. The results of the NSA could impact the City's wastewater utility operation.

Possible Future Litigation Regarding Utility Rates. Litigation against the City regarding referendum petitions seeking a referendum as to utility rate increases adopted in 2004 resulted in a final decision holding such increases as not subject to voter approval by referendum. However, an amendment to A.R.S. 9-511.0 I made by the Arizona Legislature in 2006, which requires that rates and charges for water and wastewater services charged by Arizona cities and towns must be "just and reasonable," may encourage litigation against cities and towns, such as the City, to reduce or defer rate increases, or challenge future rate increases.

Other Considerations. The Audited Financial Statements of the City included in APPENDIX D hereto are for the fiscal year ended June 30, 2011 and may not reflect the current financial positions of the City. Such financial statements are the most recent audited financial statements for the City.

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."

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 premium of the Bonds Being Refunded.

Refunded Issue	Maturity Date (July 1)	Principal Amount Outstanding	Amount Being Refunded	Redemption Date	Redemption Price	CUSIP No. (a)
Utility Systems Revenue Refunding Bonds, Series 2002	2012	$15,035,000	$3,475,000	N/A	N/A	590545JS9
Utility Systems Revenue Refunding Bonds, Series 2002A	2016	9,240,000	9,240,000	7/1/2012	100.00%	590545KJ7
	2017	7,565,000	7,565,000	7/1/2012	100.00	590545KK4
Utility Systems Revenue Bonds, Series 2003	2020	7,500,000	7,500,000	7/1/2013	100.00	590545LJ6
	2021	7,500,000	7,500,000	7/1/2013	100.00	590545LK3
		Total	$35,280,000			

(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.

Pursuant to the Master Resolution, upon deposit of funds into the Depository Trust and receipt of the verification report described below under "VERIFICATION OF MATHEMATICAL COMPUTATIONS", the Bonds Being Refunded shall no longer be deemed Outstanding under the Master Resolution or secured by the Net Revenues.

The City is refinancing the Bonds Being Refunded to achieve a combination of debt service savings and restructuring of portions of the City's utility system bond debt service configurations.

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.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
The Bonds	$31,580,000.00
Reoffering Premium	5,319,346.25
Total Sources of Funds	$36,899,346.25
Uses of Funds:	
Deposit to Depository Trust	$36,664,973.53
Costs of Issuance*	231,844.00
Deposit to Bond Fund	2,528.72
Total Uses of Funds	$36,899,346.25

* Includes Underwriter's compensation and certain costs incurred by the City in connection with the issuance of the Bonds.

DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

The following schedule sets forth (i) the estimated annual debt service requirements of the City's outstanding utility systems revenue bonds, net of the Bonds Being Refunded and the bonds expected to be refunded with proceeds of the Series 2012 Taxable Refunding Bonds, (ii) the annual debt service requirements of the Bonds, (iii) the estimated total annual utility systems revenue bond debt service requirements following issuance of the Bonds and the Series 2012 Taxable Refunding 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 Net Revenues ($158,943,966).

City of Mesa, Arizona
Schedule of Combined Annual Utility Systems Revenue Bond
Estimated Debt Service Requirements and Debt Service Coverage

	Utility Systems Revenue Bonds Outstanding (a)		The Bonds		The Series 2012 Taxable Refunding Bonds*		Estimated Combined Annual Debt Service Requirements	Estimated Debt Service Coverage Provided By Net Revenues (d)
Fiscal Year	Principal	Interest	Principal	Interest (b)	Principal	Interest (c)		
2011/12	$21,485,355	$41,908,817		$ 345,475		$ 832,373	$64,572,020	2.46x
2012/13	22,452,973	38,577,253		1,429,550		3,444,300	65,904,077	
2013/14	23,395,651	37,556,021		1,429,550		3,444,300	65,825,521	
2014/15	24,748,389	36,381,655		1,429,550		3,444,300	66,003,894	
2015/16	16,581,189	35,157,176	$9,150,000	1,429,550		3,444,300	65,762,215	
2016/17	19,529,052	34,322,830	7,525,000	1,012,550		3,444,300	65,833,732	
2017/18	32,016,981	33,389,862		711,550		3,444,300	69,562,693	
2018/19	34,964,976	31,838,921		711,550		3,444,300	70,959,748	2.24x
2019/20	19,563,040	30,087,108	7,440,000	711,550	$3,370,000	3,444,300	64,615,998	
2020/21	20,826,173	29,104,320	7,465,000	360,250	3,520,000	3,292,650	64,568,393	
2021/22	29,584,378	28,056,107			3,680,000	3,134,250	64,454,736	
2022/23	30,937,657	26,560,820			3,845,000	2,968,650	64,312,126	
2023/24	32,576,010	24,957,669			4,020,000	2,795,625	64,349,304	
2024/25	34,239,440	23,244,529			4,200,000	2,614,725	64,298,694	
2025/26	35,742,949	21,683,999			4,385,000	2,425,725	64,237,673	
2026/27	37,246,538	20,121,514			4,585,000	2,228,400	64,181,452	
2027/28	39,095,210	18,457,228			4,790,000	2,022,075	64,364,513	
2028/29	40,742,367	16,724,087			5,005,000	1,806,525	64,277,979	
2029/30	42,300,000	14,929,586			5,230,000	1,581,300	64,040,886	
2030/31	44,350,000	13,044,774			5,465,000	1,345,950	64,205,724	
2031/32	46,175,000	11,120,149			5,715,000	1,100,025	64,110,174	
2032/33	48,250,000	8,846,618			5,970,000	842,850	63,909,468	
2033/34	50,380,000	5,770,680			6,240,000	574,200	62,964,880	
2034/35	53,950,000	2,697,500			6,520,000	293,400	63,460,900	
	$801,133,330		$31,580,000		$76,540,000			

* Subject to change.

(a) Represents all Parity Bonds outstanding, net of the Bonds Being Refunded and the bonds expected to be refunded by the Series 2012 Taxable Refunding Bonds.

(b) Interest on the Bonds is actual.

(c) Interest on the Series 2012 Taxable Refunding Bonds is estimated at an average interest rate of 4.50%

(d) Debt Service Coverage is computed using the Net Revenues of $158,943,966 for fiscal year 2010/11. See “COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE”, herein. The fiscal year 2010/11 Net Revenues provide coverage for the total estimated annual debt service requirements in fiscal year 2011/12 of approximately 2.46x and approximately 2.24x the total estimated annual debt service requirements for fiscal year 2018/19, the Maximum Annual Debt Service payable on all Parity Bonds to be outstanding immediately after issuance of the Bonds and the Series 2012 Taxable Refunding Bonds.

RATINGS

Moody's Investor Service ("Moody's") and Standard & Poor's Financial Services LLC ("S&P") have assigned credit ratings of "Aa2" and "AA-", respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P. An explanation of the significance of such ratings may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007 and from S&P at 55 Water Street, New York, New York 10041. . Such ratings may subsequently be revised downward or withdrawn entirely by Moody's or S&P, if, in their respective judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Bonds. The City will covenant in its continuing disclosure certificate that it will file notices 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 incident to the issuance and delivery of the Bonds, the validity and the tax-exempt status of the Bonds (see "TAX-EXEMPTION") are subject to the legal opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona ("Bond Counsel") whose services as Bond Counsel have been retained by the City. The signed legal opinion of Gust Rosenfeld P.L.C., dated and premised on the law in effect as of the date of original delivery of the Bonds, will be delivered to the City at the time of original issuance.

The proposed text of the legal opinion is set forth as APPENDIX G. The legal opinion to be delivered may vary from the text of APPENDIX G 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, as 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 delivery of the Bonds. A form of such opinion is included herein in APPENDIX G – "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 who become Beneficial Owners of 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 may be issued, 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 (collectively, 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 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 herein), 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 $36,817,502.25, 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 $81,844. 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 inside 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 H. 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 H – "Form of Continuing Disclosure Certificate."

These covenants will be made in order to assist the Underwriter 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 H hereto (the "Continuing Disclosure Certificate"). 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 Series 2012 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 A.R.S. 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 D 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 estimates, projections, forecasts or matters of opinion, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Such estimates, projections, forecasts or matters of opinion are forward looking statements which must be read with an abundance of caution. 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 Underwriter 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

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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

* 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 following issuance of the Bonds and the anticipated Series 2012 Taxable Refunding Bonds. See "Statements of Bonds Outstanding — Utility Systems Revenue Bonds to be Outstanding" in this appendix.

(c) Represents all street and highway user revenue bonds to be outstanding. 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 General Obligation Refunding Bonds (i)				(31,665,000)
Plus the Series 2012 General Obligation 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 $31,665,000 principal amount of its General Obligation Refunding Bonds, Series 2012 by a separate official statement which is expected to be issued contemporaneously with the Bonds offered herein. The City also expects to issue approximately $33,400,000 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				(35,280,000)
Plus the Bonds				31,580,000
Less the bonds being refunded by the Series 2012 Taxable Utility 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 *

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* 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 also expects to offer approximately $76,540,000* principal amount of its Taxable Utility System Revenue Refunding Bonds, Series 2012 and $62,425,000* 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 by the Series 2012 Refunding Bonds (m)				(39,920,000)
Plus the Series 2012 Refunding Bonds (m)				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.

(m) The City has offered by a separate official statement $36,090,000 principal amount of its Street and Highway User Revenue Refunding Bonds, Series 2012 which is expected to be issued contemporaneously with the Bonds offered herein.

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 (n) 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

(n) 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 D of this Official Statement.

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

Overlapping Jurisdiction	General Obligation Bonded Debt (p)	Portion Applicable to City of Mesa (o): Approximate Percentage	Portion Applicable to City of Mesa (o): Net Debt Amount
State of Arizona	None	5.12 %	None
Maricopa County (q)	None	8.16	None
Maricopa Community College District (r)	$ 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 (s)	283,735,000	100.00	283,735,000
Total Direct and Overlapping General Obligation Bonded Debt Outstanding			$604,912,824

Source:The various entities.

(o) 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.

(p) 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.

(q) 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.

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

(s) Does not include the City's utility systems revenue bonds to be 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 (t)	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

(t) 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 D – "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 that 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 D.

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.

CITY OF MESA, ARIZONA
UTILITY SYSTEMS INFORMATION

Electric System

The City Energy Resources Department Electric Utility ("Electric Utility") has been in operation since 1917. The Electric Utility service area covers approximately six square miles including the downtown business center of the City. As of the fiscal year ended June 30, 2011, the Electric Utility served approximately 15,725 customers comprised of 13,290 residential and 2,435 commercial and other customers. There were no industrial customers in the Electric Utility's electric service area. A fiscal year summer system peak demand of approximately 83 MW and system energy requirements of 313,114,658 kWh were experienced at the Rogers Substation, the City's point of supply.

During fiscal year 2011/12, the Electric Utility's power and transmission resource scheduling and utilization were managed through its participation in the Resources Management Services program ("RMS") administered by the Western Area Power Administration ("Western") of the United States Department of Energy. Western provided scheduling, dispatching and accounting functions and purchased supplemental power, as needed, on a monthly, daily and real-time basis. The RMS group consists of Mesa, Electrical District Number Two (ED-2), the Town of Fredonia, Aha Macav Power Service, and the Cortaro-Marana Irrigation and Drainage District. As part of the RMS group, these entities pool loads and resources to achieve the benefits of diversity and greater economies of scale in purchased power transactions.

The supply-side resource portfolio during the Electric Utility's fiscal year (ending June 30, 2011) was comprised of long-term purchased power agreements and short-term seasonal and daily power market purchases. The Electric Utility contracts for long-term power based on the results of competitive request for proposals and as a member in RMS, have access to the wholesale power supply market and the ability to engage in *ad hoc,* short-term firm and non-firm transactions. Current power supply resources for the Electric Utility are as follows:

		Contract Amount (Megawatts)	
Electric Power Resources	Expiration Dates	Summer	Winter
Western Area Power Administration (a):			
Parker-Davis Project	2028	10.5	8
Colorado River Storage Project	2024	4.3	3.4
Shell Energy North America, L.P. (b)	2011	15	15
Shell Energy North America, L.P. (c)	2012/13	35	10
Shell Energy North America, L.P. (d)	2013	10	0

(a) The long-term contracts with Western provide hydroelectric power from the Parker-Davis Project ("P-DP") and the Colorado River Storage Project ("CRSP"). The CRSP contract expires on September 30, 2024 and the P-DP contract expires on September 30, 2028.

(b) The City and Shell Energy North America, L.P. ("SENA") were parties to a 3-year firm power sale agreement for demand with associated energy effective February 1, 2009. This contract expired December 31, 2011. On January 9, 2012, Council authorized entering into a contract (s) to replace this contract. The electric commodity needs are being met with a monthly WAPA contract at favorable market rates. A replacement contract is currently under negotiations and expected by March 4, 2012.

(c) The City and SENA are also parties to a firm power purchase and sale agreement consisting of a base load product for 10 Megawatts and three summer peaking products for up to 20 additional Megawatts. This agreement will be phased out beginning at the end of August 2012, September 2012 and May 2013.

(d) The City and SENA are also parties to a June through October, 10 Megawatt, firm power purchase and sale agreement. This contract has a termination date of October 31, 2013.

The City's purchased power and energy resources are contractually transmitted over Western's Parker-Davis and Pacific Intertie transmission systems to Western's 500 kV West Wing and 230 kV Pinnacle Peak and then to the 230 kV Rogers Substation, jointly owned by Salt River Project ("SRP"), Western, and the City. The power and energy are then transmitted via the City's 69 kV lines to the 4 kV and 12 kV electrical distribution facilities owned by the City and operated by the Electric Utility and distributed to the City's service area through 14 substations and associated distribution lines. As of June 30, 2011 there were approximately 183 miles of overhead primary lines and approximately 210 miles of underground primary lines that distribute power to the distribution transformers.

Electrical Utility Industry Deregulation

In the 1998 legislative session, the Arizona legislature adopted House Bill 2663 (H.B. 2663) to address many of the issues and the implementation of electric industry deregulation within Arizona. H.B. 2663 established a framework for phasing in electric competition for the sale of retail power by public power entities (such as the City), and confirmed the Arizona Corporation Commission's authority to set the framework for public service corporations. Under H.B. 2663, however, the City could "opt out" and not open its service area to competition so long as the City did not provide service outside its service area boundaries. In August of 1998, the City adopted a resolution exercising its authority to "opt out" of competition due to non-competition covenants made by the City in the Bond Resolution. In 2000, however, the Arizona legislature adopted Senate Bill 1056 (S.B. 1056) under which the City was required to open its service territory to competition beginning in January 2002. Consequently, the City's electric service area of approximately six square miles is currently open to competition.

Notwithstanding the above, electric industry restructuring in Arizona may be considered to be on hold indefinitely given the lack of substantive regulatory activity since 2004 and the issuance of a variety of regulatory orders beginning in 2002 that have essentially nullified or placed on hold regulatory actions considered significant prerequisites for implementing deregulation.

The tables below contain information with respect to the City's electric system.

Schedule of Current Electric System Fees and Charges

Description of Electric Services	Fee/Charge (e) (2011/12)
Residential Electric Service = E1.1	
Monthly Bill Per Meter	
May/October	
Customer Charge	$5.71
Energy Charge (f)	
KWH First 1200 KWH	$0.05128 per kWh
KWH All Additional	$0.04822 per kWh
November/April	
Customer Charge	$5.71
Energy Charge (f)	
KWH First 800 KWH	$0.03765 per kWh
KWH All Additional	$0.01633 per kWh
Minimum	$5.71
Non-Residential Service = E3.1	
Monthly Bill Per Meter	
May/October	
Customer Charge	$6.22
Demand Charge	
Generation	
KW First 50 KW	$0.00
KW All Additional KW	$3.52 per kW
Distribution	
KW First 50 KW	$0.00
KW All Additional KW	$0.3968 per kW
Energy Charge (f)	
Distribution	
KWH First 15,000 KWH	$0.06491 per kWh
KWH 15,001 - 75,000 KWH	$0.04125 per kWh
All Additional	$0.02901 per kWh
November/April	
Customer Charge	$6.22
Demand Charge	
Generation	
KW First 50 KW	$0.00
KW All Additional KW	$3.20 per kW
Distribution	
KW First 50 KW	$0.00
KW All Additional KW	$0.115 per kW
Energy Charge (f)	
Distribution	
KWH First 15,000 KWH	$0.05375 per kWh
KWH 15,001 - 75,000 KWH	$0.03692 per kWh
All Additional	$0.02060 per kWh
Minimum	$6.22

(e) The City may require special service agreements for consumers requiring large electric loads.

(f) The Energy Cost Adjustment Factor was implemented November 1, 2004, which allows for the full recovery of the costs of fuel and purchased power costs. The current factor for residential is $0.05916 per kWh and the current factor for non-residential is $0.04836 per kWh.

Source: City of Mesa Utility Rate and Fees Book Fiscal Year 2011/2012. The information above reflects only certain basic fees and charges of the City's electric system and is not a comprehensive statement of all such fees.

Schedule of Electric System Rate Increases (2007-2011)

Date	Rate Increase (%) *
August 1, 2011	None
August 1, 2010	None
August 1, 2009	None
August 1, 2008	None
August 1, 2007	None

* See "Schedule of Current Electric System Fees and Charges," footnote (f) in this appendix concerning the Energy Cost Adjustment Factor implemented November 1, 2004.

Source: City of Mesa Finance Department.

Schedule of Electric System Customers
(Fiscal Years 2006/07 through 2010/11)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2010/11	13,290	2,250	185	15,725
2009/10	12,949	2,265	185	15,399
2008/09	12,756	2,273	187	15,216
2007/08	13,420	2,298	186	15,904
2006/07	13,814	2,316	196	16,326

Source: City of Mesa Finance Department. The schedule immediately above reflects customers as of June 30 for each fiscal year.

Schedule of the 10 Largest Electric System Customers

Electric System Customer	2010/11 Electric System Fees/Charges
Mesa Public Schools	$1,262,819
Apache Junction Hospital LLC	379,478
AT&T / Mountain Bell	361,778
Mesa Cold Storage	330,522
Pacifica Centennial, LLC	322,422
Mesa Arizona Temple	249,988
Brown and Brown Chevrolet	233,488
Basha's	224,850
Epicurean Fine Food, Inc	211,011
Courtyard Towers	206,562
Total	$3,782,919
Total As a Percent of Total 2010/11 Electric System Operating Revenue	11.5%

Source: City of Mesa Finance Department. The City is also a customer of the electric system and paid $3,643,049 in electric charges during fiscal year 2010/11.

Natural Gas System

The American Public Gas Association ("APGA") ranks the City Energy Resources Department Natural Gas Utility System ("NG Utility") as the 15th largest publicly-owned gas utility system in the United States in terms of customers served. The NG Utility's natural gas service territory is comprised of two major service areas: 1) the City service area (CSA) of approximately 90 square miles within the City limits; and 2) the Magma service area (MSA), a 236 square mile system located southeast of the City in Pinal County, Arizona. As of the fiscal year ended June 2011, the City's combined NG Utility system operated 1,248 miles of distribution mains and served 54,230 customers comprised of 51,832 Residential and 2,398 Commercial customers.

The NG Utility's natural gas supplies and associated contracts are designed to fulfill not only existing system requirements, but anticipate system growth and peak needs of that growth. During fiscal year ended June 2011, the NG Utility's natural gas supplies were provided by Shell Energy North America, L.P. ("SENA"). The City is currently acquiring natural gas under the terms of an agreement with SENA which expires as of December 2014. The contract includes two one-year renewal options. The natural gas supplies provided by SENA came from both the San Juan Basin in New Mexico and the Permian Basin in West Texas. The natural gas was transported via a major pipeline system owned and operated by the El Paso Natural Gas Company ("EPNG"), under the terms of two transportation service agreements ("TSA") that were effective February 1, 2007. The TSA's provide the NG Utility with the ability to transport its total, daily natural gas supplies (up to 32,000 Decatherms ("DTh") per day during the month of January) to four NG Utility-owned gate stations located in both the CSA and MSA.

For fiscal year ended June 2011, the NG Utility system experienced a total natural gas supply daily peak delivery at its gate stations of 31,247 DThs. Total natural gas supply deliveries at the NG Utility's gate stations during fiscal year ended June 2011 were 3,271,571 DThs.

Facilities and distribution infrastructure necessary to provide service to the majority of the CSA has been completed. Continued growth of the NG Utility system, especially in the MSA will require the extension of distribution mains in order to serve developing residential and commercial areas. Additionally, to augment system reliability, a fifth gate station will be added in the CSA during the early part of 2012 to complement ongoing system facility upgrades and improvements.

The following tables provide information with respect to the City's NG Utility.

Schedule of Current Natural Gas System Fees and Charges (g)

Description of Natural Gas Services		Fee/Charge
CSA Residental Gas Service = G1.1		
May 1st through October 31st		
Monthly Service Charge	$	9.68
First 25 Therms		0.6685 / therm
All Additional Therms		0.2167 / therm
November 1st through April 30th		
Monthly Service Charge	$	12.61
First 25 Therms		0.6685 / therm
All Additional Therms		0.4926 / therm
CSA Gas Service = G3.1		
May 1st through October 31st		
Monthly Service Charge	$	29.03
First 1200 Therms		0.5280 / therm
All Additional Therms		0.3166 / therm
November 1st through April 30th		
Monthly Service Charge	$	38.71
First 1200 Therms		0.5718 / therm
All Additional Therms		0.4574 / therm
MSA Residental Gas Service = GM1.1		
May 1st through October 31st		
Monthly Service Charge	$	10.67
First 25 Therms		0.7370 / therm
All Additional Therms		0.2388 / therm
November 1st through April 30th		
Monthly Service Charge	$	13.91
First 25 Therms		0.7370 / therm
All Additional Therms		0.5433 / therm
MSA General Gas Service = GM3.1		
May 1st through October 31st		
Monthly Service Charge	$	35.85
First 1200 Therms		0.6522 / therm
All Additional Therms		0.3910 / therm
November 1st through April 30th		
Monthly Service Charge	$	47.78
First 1200 Therms		0.7061 / therm
All Additional Therms		0.5648 / therm

(g) The Natural Gas Tariff Adjustment allows for the full recovery of the cost of natural gas. The current factor for residential and general service is $0.4500 per therm.

Source: City of Mesa Finance Department. The table above reflects only certain basic fees and charges of the City's natural gas system and is not a comprehensive statement of all such fees.

Schedule of Natural Gas System Customers
(Fiscal Years 2006/07 through 2010/11) (h)

Fiscal Year	Residential Customers	Commercial Customers	Total Customers
2010/11	51,832	2,398	54,230
2009/10	51,819	2,426	54,245
2008/09	50,718	2,475	53,193
2007/08	49,946	2,546	52,492
2006/07	49,003	2,529	51,532

(h) Reflects customers as of June 30 of each fiscal year

Source: City of Mesa Finance Department.

Schedule of Natural Gas System Rate Increases (2007-2011)

Date	Rate Increase (%)
August 1, 2011	2.50
August 1, 2010	2.50
August 1, 2009	3.00
August 1, 2008	3.00
August 1, 2007	5.00
August 1, 2006	5.00

Schedule of the 10 Largest Natural Gas System Customers (i)

Natural Gas System Customer	2010/11 Natural Gas System Fees/Charges
Regional Public Transit Authority	$1,579,434
Mesa Public Schools	$794,512
Empire Southwest	$584,639
Banner Desert Hospital	$376,241
Commercial Metals Company	$345,062
Banner Corporate Center	$312,759
Banner Gateway Hospital	$208,106
Cal-Am Properties, Inc.	$195,490
Quality Emulsions, LLC	$135,050
Smith's Food and Drug Center, Inc.	$119,612
Total	$4,650,905
Total As a Percent of Total 2010/11 Natural Gas System Operating Revenue	18.2%

(i) The City is also a customer of the natural gas system and paid $365,988 in natural gas charges during fiscal year 2010/11.

Source: City of Mesa Finance Department.

Water System

The water utility system of the City currently serves a population of over 465,000, residing within a 170 square mile area. The water system currently consists of approximately 135,000 residential and commercial connections.

The City's terrain slopes upward from the southwest to the northeast, and the system consists of eight different pressure zones and two mini-zones. The lowest in elevation and largest pressure zone is bounded on the east by SRP's Eastern Canal. The remaining six zones lie to the east of this canal. Water is provided from three general sources: the Salt and Verde Rivers, the Colorado River via the Central Arizona Project, and groundwater wells.

The City has 20 storage facilities in the water system service area capable of storing 92 million gallons. The City has approximately 2,250 miles of water distribution mains. A backflow prevention program has been implemented and enforced to protect the quality of the drinking water from possible sources of contamination. The total current capacity of the water system is approximately 245 million gallons per day (mgd). The record peak day was in 2005 and required approximately 138 million gallons per day (mgd). The average day in 2011 was 82 mgd with a peak day of 117 mgd.

Surface water from the Salt and Verde Rivers is treated at the Val Vista Water Treatment Plant. The plant is jointly owned by the City and the City of Phoenix. Currently, the plant has a treatment capacity of 220 mgd, of which the City owns 90 mgd. The plant produces approximately 45% of the water used by the City.

Colorado River water is delivered to the City via the Central Arizona Project (CAP) Canal. The water is treated at the Mesa CAP Water Treatment Plant, which recently was expanded to 72 million gallons per day (mgd) and produces approximately 49% of the City's water.

Groundwater wells produce the remaining 6% of the water used in the City. The City currently has numerous groundwater wells with a pumping capacity of approximately 81 mgd. The continued development of new wells provides water supplies for future growth, but more importantly, provides redundancy in case of drought or operational problems with the surface water system.

The City is actively involved in promoting water conservation. As public education plays a large role in conservation, the City makes available a variety of free publications, participates in community and business sponsored events, maintains a speaker's bureau, and sponsors a youth education program. The City has also instituted a rebate program for low water use landscaping, and has incorporated an inclining block rate structure to encourage water conservation.

The following tables provide information with respect to the City's water utility.

Schedule of Current Water System Fees and Charges (j)

Description of Water System Services	Fees/Charges
Monthly Minimum Bill-All Classes, All Zones*	
3/4 Inch	$ 20.73
1 Inch	23.22
1 1/2 Inch	32.50
2 Inches	42.62
3 Inches	84.42
4 Inches	133.70
6 Inches	256.04
8 Inches	379.18
10 Inches	513.69
*Includes the first 3,000 gallons of water as a minimum charge for capacity availability	
Monthly Volume Charge - Residential	
First 12,000 Gallons of Water	$2.60/1,000 Gallons
Next 12,000 Gallons of Water	$3.89/1,000 Gallons
Additional Usage	$4.35/1,000 Gallons

(j) Reflects only certain basic fees and charges of the City's water system and is not a comprehensive statement of all such fees

Source: City of Mesa Water Resources Department.

Schedule of Water System Rate Increases (2007-2011)

Date	Rate Increase
August 1, 2011	6.80%
August 1, 2010	5.50
August 1, 2009	3.40
August 1, 2008	3.00
August 1, 2007	4.50

Source: City of Mesa Water Resources Department.

Schedule Of Water System Customers
(Fiscal Years 2006/07 through 2010/11) (k)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Total Customers
2010/11	119,471	9,921	4,407	133,889
2009/10	121,194	10,119	4,410	135,723
2008/09	120,187	10,125	4,380	134,692
2007/08	120,538	9,950	4,347	134,835
2006/07	120,392	9,841	4,331	134,564

(k) Reflects customers as of June 30 for each fiscal year

Source: City of Mesa Water Resources Department.

Schedule Of The 10 Largest Water System Customers (l)

Water System Customer	2010/11 Water System Fees/Charges
Mesa Public Schools	$1,552,151
The Church of Jesus Christ of Latter Day Saints	468,787
Arizona State University East	446,503
Cal-Am, Inc.	436,427
Gilbert Public Schools	419,393
Ricor, Inc.	405,476
Commercial Metals Company	361,292
Desert Banner Medical Center	305,859
IMT-LB Del Coronado/Mesa LLC	240,690
International Rectifier EPI Services	218,475
Total	$4,855,053
Total as a Percent of Total 2010/11 Water System Rate Revenue	4.9%

(l) The City is also a customer of the water system and paid $4,132,043 in water system charges during fiscal year 2010/11

Source: City of Mesa Water Resources Department.

Wastewater System

The City's gravity wastewater collection system currently serves approximately 118,040 residential and commercial connections. Three water reclamation plants (WRP) and one wastewater treatment plant (WWTP) provide wastewater treatment for the City.

The Phoenix-operated 91st Avenue WWTP, which is jointly owned by the City and four other nearby municipalities within the Sub-Regional Operating Group (SROG), currently has a 205 mgd capacity. the City's portion of that amount is approximately 30 mgd.

The City owns and operates three water reclamation plants. The Northwest Water Reclamation Plant (NWWRP) currently has a treatment capacity of 18 mgd. Reclaimed water from the NWWRP is delivered to recharge basins where it is converted into a water right that can be used to meet future potable demands. The plant also has sludge processing capabilities.

The Southeast Water Reclamation Plant (SEWRP) has a plant capacity of 8 mgd. The plant sends its bio-solids to the Greenfield Water Reclamation Plant (GWRP).

The GWRP is a regional plant operated by the City, and co-owned with the Towns of Gilbert and Queen Creek. The GWRP currently has a treatment capacity of 16 mgd of which the City owns 4 mgd. The ultimate treatment capacity of the plant is expected to reach 56 mgd with the City's portion expected to reach 24 mgd. The plant currently has bio-solids processing capacity of 24 mgd of which the City owns 12 mgd. The ultimate bio-solids capacity of the plant is expected to reach 64 mgd, of which the City will own 36 mgd. Reclaimed water from the SEWRP and the GWRP is delivered to the Gila River Indian Community for agricultural use as part of a water exchange program. Through this exchange, the City receives four acre-feet of Central Arizona Project water for use in its potable system for every five acre-feet of reclaimed water that is delivered to the Community.

The City has approximately 1,600 miles of sewer mains, 15 lift stations, 16 sulfide stations (plus one on the Salt River Pima Maricopa Indian Community (SRPMIC) which the City operates), 5 metering stations, and 10 diversion structures in its wastewater collection system. In addition, the City is part owner in the Baseline/Southern Interceptors, and the Salt River Outfall (SRO) interceptor mains that transport sludge and wastewater to the 91st Avenue WWTP. The City's wastewater system master plan was completed in the fall of 2009.

The City's wastewater system and current agreements allow for a treatment capacity of approximately 60 mgd. The peak day during calendar year 2011 was approximately 38 mgd.

Solid Waste System

The City's solid waste system is the exclusive provider of solid waste collection services to single and multi-family residences located within the City. Standard residential solid waste service includes once per week collection of trash and once per week collection of recyclables. Single-family residences and many multi-family residences are serviced using automated side-loader trucks, thereby reducing the personnel required from a collection crew to a single driver/operator. The residential solid waste system currently consists of approximately 115,811 customers. The City's solid waste system is also the exclusive provider of solid waste collection services to apartment complexes using front loader trucks. The City currently has approximately 2,166 customers who have metal bin service.

The City competes with private solid waste hauler and collection services for commercial customers within the City. It is currently estimated that the City serves approximately 44% of the total commercial customers in the City.

The City's solid waste collection system has implemented both a blue barrel and green barrel curbside recycling program. A 31.4% diversion rate in materials going to landfills is expected from these programs, saving the City considerable expense.

In December 2007, the City extended its agreement through the year 2015 for use of the Salt River-Pima Maricopa Indian Community's landfill located directly north of the City across the Salt River. This landfill is a designed facility that meets all Federal Subtitle D requirements.

In September 2005, the City entered into agreements with 4 additional landfills and/or Transfer Stations for the disposal of approximately 21% of the total solid waste. These additional facilities allow the City to reduce our overall operating costs. These facilities meet all Federal Subtitle D requirements.

Schedule of Current Solid Waste System Fees and Charges (m)

Residential Solid Waste System Monthly Billing

Rate R1.2*: $23.34 per unit for single dwellings units, duplexes, triplexes and fourplexes when the water account servicing the unit or units is active or where the resident resides within Mesa Solid Waste service area, for once per week residential solid waste barrel collection and once per week recycling barrel collection (90 gallon individual garbage barrel).

$20.83 per unit for single dwelling units when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for once per week residential Solid waste barrel collection and once per week recycling barrel collection (60 gallon garbage barrel).

Rate R1.21: $11.02 per each additional 60/90 gallon solid waste barrel collected on same day as first solid waste barrel.

Rate R1.23: $25.04 per unit for the first barrel in addition to the above R1.2 rate for twice per week solid waste collection, and $11.02 for each additional barrel at twice per week.

Rate R1.24*: $20.83 per unit for multiple dwelling units with five to twenty units when the water account servicing the units is active, or where the resident resides within Mesa Solid Waste service area for once per week solid waste barrel collection and once per week recycling barrel collection.

Rate R1.26*: $23.34 per unit for duplexes, triplexes and fourplexes when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for metal bin service.

Rate R1.27*: $20.83 per unit for multiple dwelling units with five to twenty units when the water account servicing the units is active, or where the resident resides within Mesa Solid Waste service area for metal bin collection. Applicability of this rate shall be based on one-half cubic yard of capacity per unit per week.

Rate R1.28: $5.51 per each 90 gallon green waste barrel collected once per week.

Rate R1.29*: $22.58 per unit for single dwellings units, when the water account servicing the unit is active or where the resident resides within Mesa Solid Waste service area, for once per week residential solid waste barrel collection (90 gallon individual garbage barrel) and every other week recycling barrel collection, applicability subject to approval of the Deputy City Manager or designee.

$20.07 per unit for single dwelling units when the water account servicing the unit is active, or where the resident resides within Mesa Solid Waste service area for once per week residential solid waste barrel collection (60 gallon garbage barrel) and every other week recycling barrel collection, applicability subject to approval of the Deputy City Manager or designee.

* A $0.54 per billing cycle Mesa Green and Clean fee will be assessed to each dwelling unit.

BULK ITEM COLLECTION PROGRAM

A $19.99 fee will be assessed per load of bundled or properly prepared bulk items. The maximum volume of one load is equivalent to 128 cubic feet at each individual pick-up location. A customer needs to cancel a scheduled pickup prior to the collection crew arriving at the address or a $10.23 fee will be assessed if there are no bulk items located at the scheduled address when a crew arrives.

Commercial Solid Waste System Monthly Billing

Rate R3.8: $23.34 for the first 90 gallon barrel for once per week solid waste barrel collection and once per week recycling barrel collection.

$20.83 for the first 60 gallon barrel for once per week solid waste barrel collection and once per week recycling barrel collection.

Rate R3.81: $11.02 per each additional 60/90 gallon solid waste barrel for once per week solid waste barrel collection on same geographic in-zone day as the first barrel.

Rate R3.82: $25.04 per unit for the first barrel in addition to the above R3.8 rate for twice per week solid waste barrel collection, and $11.02 for each additional barrel at twice per week.

(m) Reflects only certain basic fees and charges of the City's solid waste system and is not a comprehensive statement of all such fees

Source: City of Mesa Finance Department.

Schedule of Solid Waste System Rate Increases (2007-2011)

Date	Rate Increase
August 1, 2011	None
August 1, 2010	None
August 1, 2009	None
August 1, 2008	5.50
August 1, 2007	5.00

Source: City of Mesa Finance Department.

Schedule of Solid Waste System Customers
(Fiscal Years 2006/07 through 2010/11) (n)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2010/11	115,811	2,166	219	118,196
2009/10	110,694	2,185	200	113,079
2008/09	105,400	2,285	244	107,929
2007/08	110,052	2,373	219	112,644
2006/07	112,812	2,263	221	115,296

(n) Reflects customers as of June 30 for each fiscal year

Source: City of Mesa Finance Department.

Schedule of the 10 Largest Solid Waste System Customers (o)

Solid Waste System Customer	2010/11 Solid Waste System Fees/Charges
Cal-Am Properties, Inc.	$383,314
Mesa Public Schools	346,414
Viewpoint RV Resort, LLC	163,125
Casa Fiesta Tempe Ltd Ptsp	116,954
Mobile Home Communities	115,615
Norton S. Karno, APC ERT	111,954
Tesoro At Greenfield Condo Assoc.	89,102
MHC Monte Vista LLC	81,565
Sierra Village.	70,916
Las Palmas LTD	69,853
Total	$1,548,811
Total as a Percent of Total 2010/11 Solid Waste System Operating Revenue	3.2%

(o) The City is also a customer of the solid waste system and paid $410,635 in solid waste system charges during fiscal year 2010/11.

Source: City of Mesa Finance Department.

Billing and Collection Procedures

The City bills its utility customers in cycles throughout the month with each customer being billed at approximately the same time every month. Electric, gas and water accounts are based on meter readings, wastewater charges are based on water usage and solid waste disposal fees vary depending on the size of the containers and frequency of collections.

The City's collection procedures for delinquent utility accounts involve a series of billings and notices with a discontinuance of service at the end of 72 days. Due to the collection procedures, utility deposits required on various accounts and the nature of the service being provided, the City has experienced write-offs at or below one-half of one percent during the past four fiscal years.

APPENDIX D

CITY OF MESA, ARIZONA

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

The following audited financial statements are the most recent available to the City. These financial statements are not current and may not represent the current financial conditions to the City.

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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.

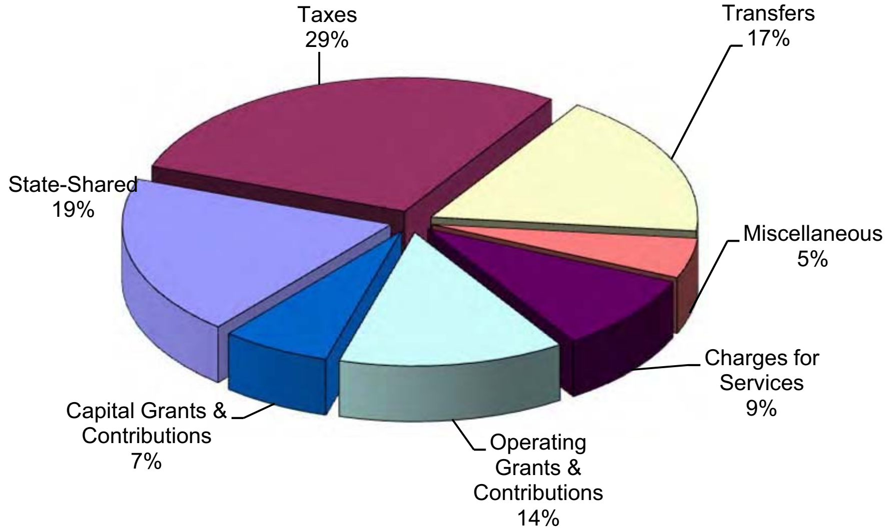
Changes in Net Assets
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	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)

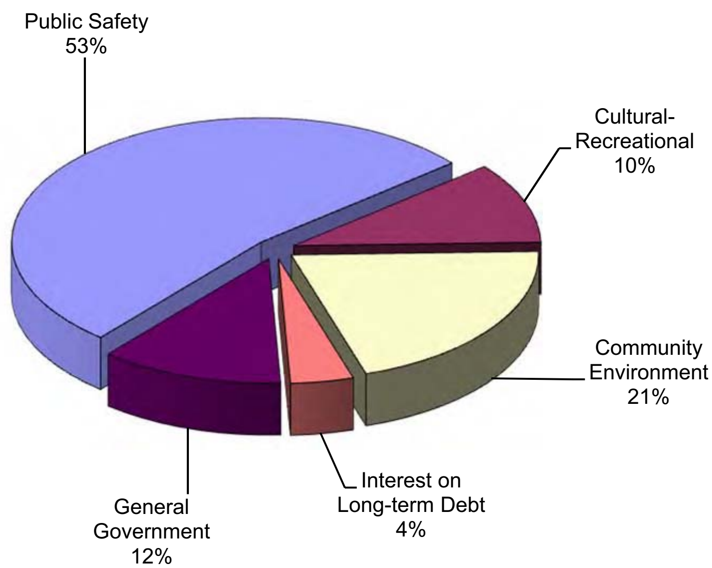
Governmental Activities

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

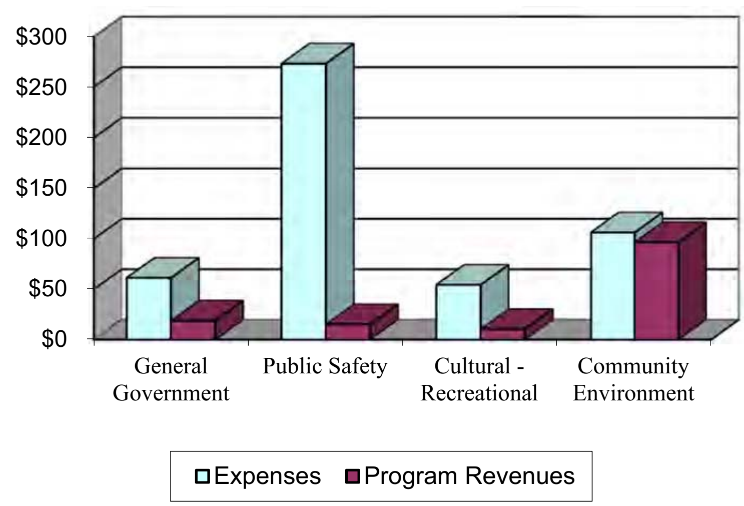


Functional Expenses – Governmental Activities
For the Fiscal Year Ended June 30, 2011



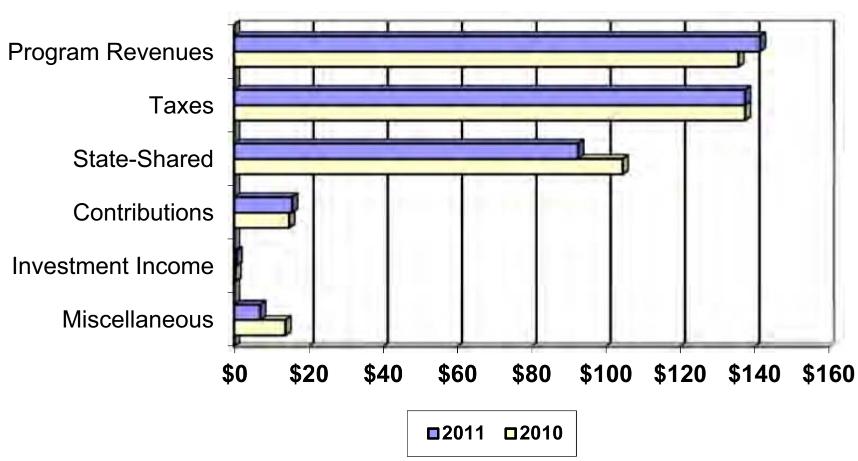
The following graph shows the functional revenues and expenses of the governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this is not intended to represent the full cost allocation to these 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)



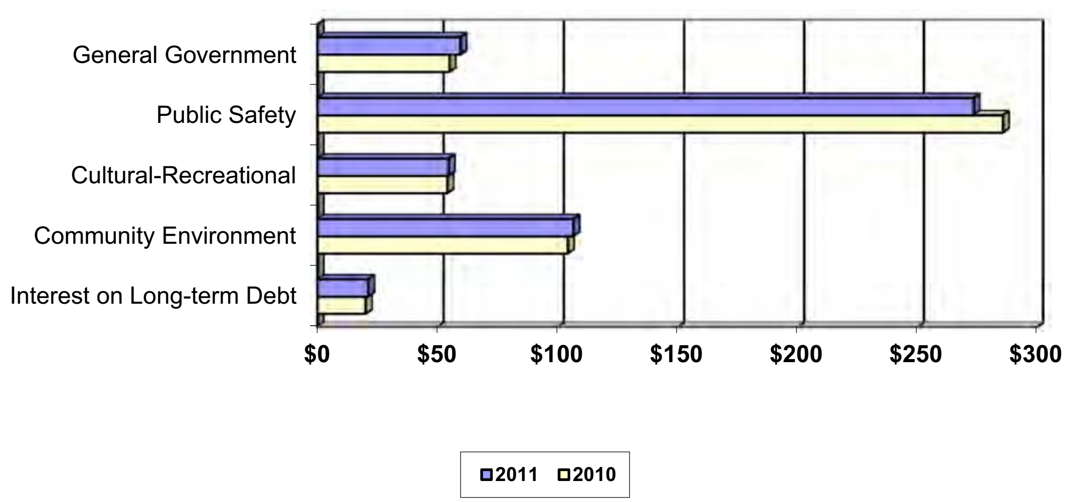
The graph above compares governmental activities revenues from fiscal year 2011 to fiscal year 2010. Total governmental activities revenues decreased $21.6 million from $416.4 million to $394.8 million. This is the fourth consecutive year that governmental activities revenues declined. Key factors in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



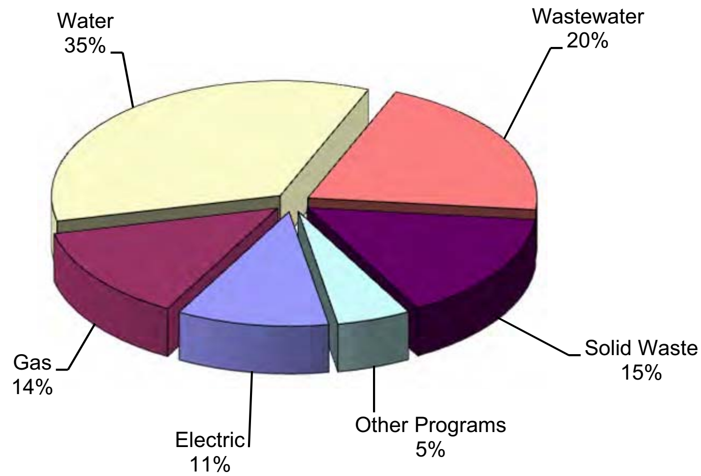
The graph above compares governmental activities expenses from fiscal year 2011 to fiscal year 2010. Total governmental expenses decreased by $3.7 million from $518.6 million, as restated to $514.9 million. Key factors in this change include:

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

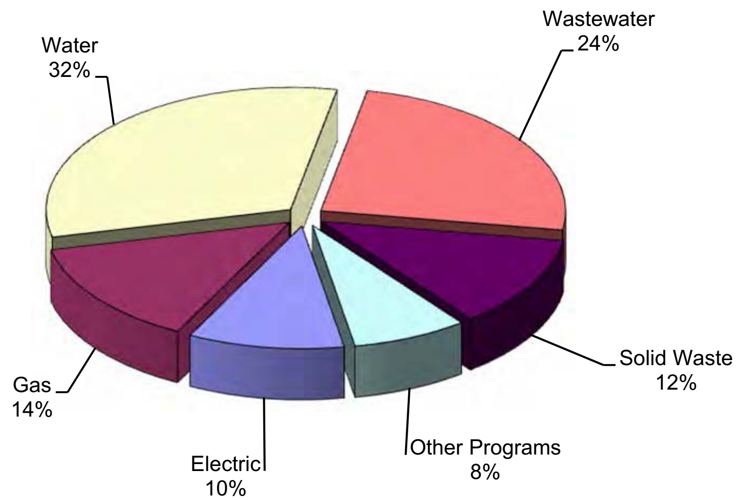
Business-type Activities

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

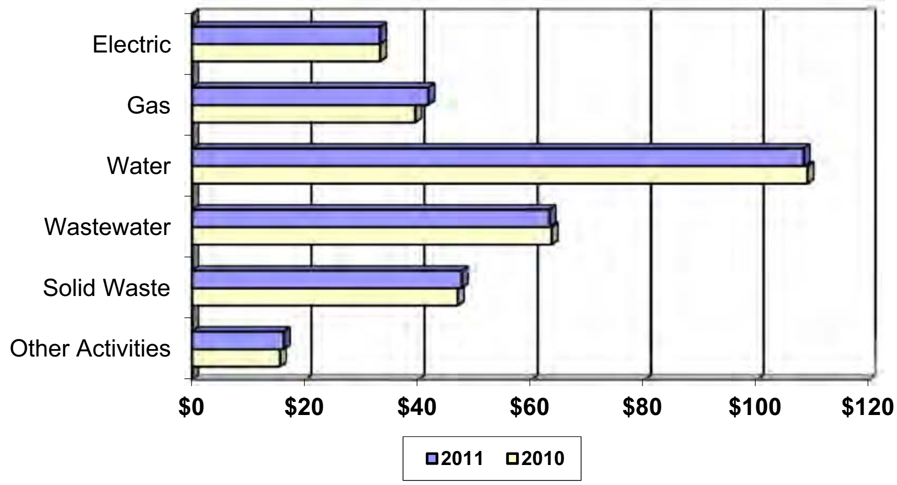


Functional Expenses – Business-type Activities



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)

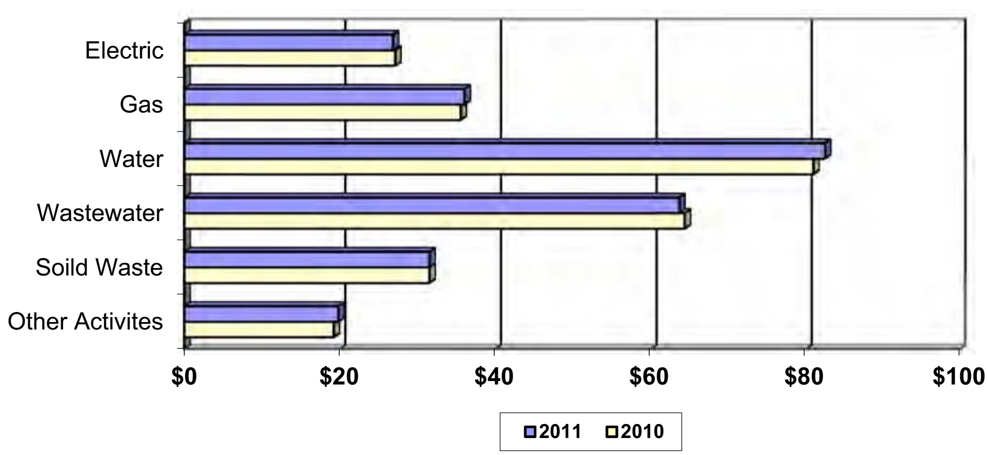


The graph above compares program revenues for the Business-type Activities from fiscal year 2011 to fiscal year 2010. Total business-type activities program revenues increased by $2.9 million (0.9%) from $307.4 million to $310.3 million. Key factors in this change include:

- 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 1 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 Enterprise Fund	Governmental Activities - 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	**Governmental Activities -**
	Enterprise Fund	**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.

(Continued)

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:

	Fair	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

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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. Pending Litigation

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

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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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APPENDIX E

SUMMARIES OF THE MASTER RESOLUTION

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SUMMARY OF THE MASTER RESOLUTION, AS AMENDED

The following is a summary of certain provisions of the Master Resolution, which was adopted by the Mayor and Council of the City of Mesa on July 29, 1991, as amended. A summary of the Twenty-Third Supplemental Resolution follows this Summary of the Master Resolution. The Twenty-Third Supplemental Resolution is substantially the same as the other twenty-two Supplemental Resolutions. The Master Resolution authorized the issuance of the Series 1991 Bonds and set the conditions for issuance of later Parity Bonds such as the Series 2012 Bonds. In addition the Master Resolution was amended in 2002, changing the requirements pertaining to the Reserve Fund. The summary does not purport to be a full statement of the terms of the Master Resolution and, accordingly, is qualified by reference hereto and is subject to the full text thereof.

Definitions. The following definitions also apply throughout this Official Statement unless the context requires otherwise:

"Agreement" - any Reserve Fund Guaranty Agreement.

"Assumed Interest Rate" - an Interest Rate for Variable Rate Obligations computed in the manner set forth in the initial Agreement.

"Average Annual Debt Service" - at computation, the average of each Bond Year's aggregate scheduled Bond principal (including mandatory redemptions) and interest requirements with Variable Rate Obligations deemed to bear interest at the Assumed Interest Rate).

"Bond Insurer" - with respect to the Series 1991 Bonds, FGIC and with respect to each series of Parity Bonds an issuer of a Municipal Bond Insurance Policy pertaining to any Bonds.

"Bonds" - all bonds issued and outstanding on parity pursuant to the Master Resolution and all Parity Bonds hereafter authorized to be issued.

"Bond Year" - initially the period from the date of the Series 1991 Bonds to July 1, 1992, and thereafter the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Capital Appreciation Bonds" - Parity Bonds whose interest component is compounded semiannually on stated dates until maturity or until converted to Bonds paying interest semiannually, if so permitted or required.

"City" - the City of Mesa, Arizona.

"Council" - the governing body of the City.

"Deficiency" - the difference between (i) the total amount then due on a principal or interest payment date for the Bonds and (ii) the then amount of deposit in the Bond Fund (excluding payments made under a Municipal Bond Insurance Policy).

"Drawdown" - any amount drawn by the Paying Agent under any Reserve Fund Guaranty.

"Drawdown Date" - the date of any Drawdown.

"Finance Director" - the City Finance Director.

"Fiscal Year" - the twelve month period commencing July 1 of each year and ending on the next June 30th.

"Master Resolution" - the Master Resolution adopted by the Mayor and Council of the City of Mesa on July 29, 1991, as amended.

"Maximum Annual Debt Service" - at computation, the greatest scheduled Bond principal (including mandatory redemptions) and interest requirements (Variable Rate Obligations shall be deemed to bear interest at the Assumed Interest Rate) occurring in the then current, or any subsequent, Bond Year.

"Municipal Bond Insurance Policy" - any irrevocable municipal bond insurance policy insuring payment of the principal and interest on any Bonds.

"Net Revenues" - those Revenues remaining after deducting Operating Expenses.

"Operating Expenses" - the reasonable and necessary costs of System operation, maintenance, and repair, but excluding depreciation and payments into the Bond, Reserve, Reimbursement and Rebate Funds.

"Owner" - any person who shall be the registered owner of any Bond or Bonds outstanding (for Book-Entry Bonds, the Depository).

"Parity Bonds" - the additional Bonds issued on a parity with the Bonds.

"Permitted Investments" - to the extent permitted by law:

(1) Direct and general obligations of the United States of America, or obligations unconditionally guaranteed as to principal and interest by the same (the ***"United States Obligations"***).

(2) Evidences of ownership of proportionate interests in future interest and principal payments of the above United States Obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a Bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

(3) Obligations issued or guaranteed by the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Farmers Home Administration; Federal Home Loan Mortgage Company; Federal Housing Administration; Private Export Funding Corporation; Federal National Mortgage Association; and obligations issued by either the Resolution Trust Corporation or the Resolution Funding Corporation, the payment of which is ultimately backed by the United States Treasury.

(4) Prerefunded municipal obligations meeting the following conditions: (a) the bonds are not to be callable prior to maturity or the trustee has been given irrevocable instructions concerning their calling and redemption; (b) the bonds are secured by cash or Permitted Investments described in No. 1 which may be applied only to interest, principal, and premium payments of such bonds; (c) the principal of and interest on the United States Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the bonds; (d) the United States Obligations serving as security for the bonds are held by an escrow agent or trustee; and (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

(5) Direct and general long-term obligations of any state on which the full faith and credit of the state is pledged and which are rated in either of the two highest rating categories by either Moody's Investors Service (hereinafter referred to as Moody's) or Standard & Poor's Corporation (hereinafter referred to as S&P) or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's no S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

(6) Direct and general short term obligations of any state described in No. 4 above which are rated in the highest rating category by either Moody's or S&P or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in the highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

(7) Interest bearing demand or time deposits issued by state banks, savings and loan associations or trust companies or any national banking associations which are members of the Federal Deposit Insurance Corporation (FDIC). These deposits must be (a) continuously and fully insured by FDIC, (b) with banks that are rated at least P-1 by Moody's or at least A-1 by S&P, or (c) fully secured by direct and general obligations of the United States, or those which are unconditionally guaranteed as to principal and interest by the same. Such United States' securities must have a market value at all time at least equal to the principal amount of the deposits. The United States' securities must be held by the City or the Bond Registrar and Paying Agent (who shall not be provider of the collateral), or any Federal Reserve Bank or Depository, as custodian for the institution issuing the deposits. The City or the Bond Registrar and Paying Agent should have a perfected first lien in the United States Obligations serving as collateral, and that collateral is to be free from all third party liens.

(8) Long-term or medium-term corporate debt guaranteed by any corporation rated by Moody's and S&P in their two highest rating categories.

(9) Repurchase agreements, the maturity of which are less than thirty (30) days, entered into with financial institutions such as banks or trust companies organized under state law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation or with a dealer or parent holding company rated Investment grade by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits. The repurchase agreement should be secured by direct and general obligations of the United States of America or those unconditionally guaranteed as to principal and interest by the same. The United States Obligations must have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreement. The City or the Paying Agent (who shall not be the provider of the collateral) must have a perfected first lien in, and retain possession of, the collateral. The obligations serving as collateral must be free from all third party claims.

(10) Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's or at least "A-1" by S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

(11) Interests in money market portfolios issued by state banks, trust companies, savings and loan associations, or national banking associations which are members of the FDIC. Such interest should be (a) fully insured by FDIC; or (b) secured by direct and general obligations of the United States or those guaranteed as to principal and interest by the same. The collateral obligations must have a market value, exclusive of accrued interest, at least equal to the principal amount of the interests in the money markets and should be held by a custodian.

(12) Public housing bonds issued by public agencies. Such bonds must be fully secured by a pledge of annual contributions under a contract with the United States government; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States; or state or public agency or municipality obligations rated in the highest rating category by a nationally recognized bond rating agency.

(13) Shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which has been rated in the highest rating categories by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits, or money market accounts of the Trustee or any state or federal bank which is rated at least P-1 by Moody's or at least A-1 by S&P or whose one bank holding company parent is rated at least A-l by S&P or at least P-1 by Moody's; provided, however, that if at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in a comparable rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such entities, all to the extent not fully insured by FDIC having a combined capital and surplus of not less than $50,000,000 at the time of any such deposit.

(14) Interests in the Local Government Investment Pool managed by the treasurer of the State of Arizona.

Any other provision of this definition of Permitted Investments to the contrary notwithstanding, from and after the execution of the initial Agreement, this definition shall be deemed amended to conform to the definition set forth in such Agreement.

"Policy Costs" - the amount necessary to reimburse a Reserve Fund Guarantor for any Drawdown(s) including the Drawdown amount, the Reserve Fund Guarantor's expenses plus interest on the aggregate thereof at the Reimbursement Rate until paid.

"Post-2002 Reserve Fund" - the Reserve Fund securing all Bonds originally issued after January 1, 2003.

"Post-2002 Bonds" -Bonds originally issued after January 1, 2003.

"Post-2002 Reserve Fund Guaranties" - an irrevocable surety bond, letter of credit or line of credit or insurance policy executed and delivered to the City or a Paying Agent for the City as a Post-2002 Reserve Fund Guaranty for purposes of the Master Resolution.

"Pre-2003 Bonds" - includes only the following Bonds: Utility Systems Revenue Bonds, Series 19995 Utility Systems Revenue Refunding Bonds, Series 1995 Utility Systems Revenue Bonds, Series 1997 Utility Systems Revenue Bonds, Series 1998 Utility Systems Revenue Refunding Bonds, Series 1998 Utility Systems Revenue Bonds, Series 2000 Utility Systems Revenue Bonds, Series 2002 Utility Systems Revenue Refunding Bonds, Series 2002 Utility Systems Revenue Refunding Bonds, Series 2002A.

"Pre-2003 Reserve Fund Guaranties" - 2003 Reserve Fund Guaranties that secure only the Pre-2003 Bonds.

"Reimbursement Period" - for any Drawdown, the period from the Drawdown Date to the first anniversary of such Drawdown Date.

"Reserve Fund' - collectively, the Pre-2003 Reserve Fund and the Post-2002 Reserve Fund; provided, however, that the Pre-2003 Reserve Fund shall secure only the Pre-2003 Bonds and the Post-2002 Reserve Fund shall only secure the Post-2002 Bonds.

"Reimbursement Rate" - the rate of interest to be paid by the City to reimburse a Reserve Fund Guarantor after a Drawdown.

"Reserve Fund Guarantor" - with respect to any series of Bonds, the issuer of a surety bond, letter of credit or line of credit or insurance policy used as a Reserve Fund Guaranty, if issued by an entity whose Guaranty will not adversely affect the Bonds' then-current rating.

"Reserve Fund Guaranty" - any irrevocable surety bond, letter of credit or line of credit or insurance policy as a reserve fund guaranty used under the Master Resolution.

"Reserve Fund Value" - as to the Pre-2003 Bonds, the Reserve Fund Value provided by the Pre-2003 Reserve Fund Guaranties and, as to the Post-2002 Bonds, the value of moneys, investments and Reserve Fund Guaranties deposited to the Post-2002 Reserve Fund.

"Reserve Requirement" - as to the Pre-2003 Bonds the aggregate face value of the Pre-2003 Reserve Fund Guaranties in the Pre-2003 Reserve Fund, which shall be not less than the Average Annual Debt Service of the Pre-2003 Bonds; as to the Post-2002 Bonds, if required to be funded, an amount equal to Average Annual Debt Service of all outstanding Post- 2002 Bonds, which amount shall be adjusted upon the issuance of Post-2002 Parity Bonds to equal Average Annual Debt Service immediately after issuance, or the maximum amount of the Post-2002 Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code of 1986, as amended, or any comparable statutory provision limiting the amount of a reasonably required Reserve and Replacement Fund.

"Revenues" - all income, moneys and receipts derived from the System ownership; however, the term Revenues shall not include Bond proceeds or interest received on any investments placed irrevocably in trust to pay, or provide for the payment of, any Bond, Bonds Being Refunded or defeased or other outstanding revenue bonds originally secured in whole or in part by System Revenues, or amounts received which the City is contractually required to pay our as reimbursement for acquisition, construction or installations of System facilities.

"System" or ***"Systems"*** - the complete water, electrical, gas, sewer, garbage and rubbish systems of the City and all water, electrical, gas, sewer and solid waste (garbage and rubbish) properties of every nature hereafter owned by the City, including all improvements and extensions made by the City while any of the Bonds or Parity Bonds remain Outstanding, and including all real and personal property of every nature comprising part of, or used or useful in connection with the City's water, electrical, gas, sewer and solid waste (garbage and rubbish) systems, and including all appurtenances, contracts, leases, franchises, and other intangibles.

"Variable Rate Obligations" - any Parity Bonds which may, in the future, bear interest at rates which cannot be determined with specificity on their original issue date.

Authorization of Bonds; Special Obligations.

A. There is authorized to be issued and sold the Series 1991 Bonds. Each supplemental resolution authorized the respective later series of Parity Bonds.

B. The Bonds are special obligations of the City payable solely from the Net Revenues and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms and the provisions of the Master Resolution. The Net Revenues are pledged and assigned as security for the Bonds. All Net Revenues shall be immediately subject to the pledge of the Master Resolution and the lien of this pledge shall be valid and binding.

Source of Payment and Pledge of Revenues. The Bonds shall be payable solely from the Net Revenues. All of the Bonds shall be equally and ratably secured by a pledge thereof and a lien thereon without priority one over the other.

Rate Covenant. The City covenants and agrees with the Owners that it will establish and maintain System charges to provide Revenues sufficient to pay all Operating Expenses and to produce aggregate Net Revenues in each Fiscal year equal to one hundred twenty percent (120%) of the current principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and said rates, fees and other charges shall also be established and maintained at rates sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year.

Creation of Funds: Application of Revenues.

A. The Finance Director shall create the following special funds and accounts: (1) the Revenue Fund; (2) the Bond Fund; (3) the Reimbursement Fund; (4) the Reserve Fund, containing the Pre-2003 Reserve Fund and the Post-2002 Reserve Fund, which Post-2002 Reserve Fund shall, if funded, contain the separate Capitalized Reserve Account and Contributed Reserve Account; (5) the Rebate Fund; (6) the Replacement Fund; and (7) the Construction Fund.

B. All Revenues shall be deposited as collected with a Depository, and shall be held in the custody of the Finance Director in the Revenue Fund and, subject to the rights of the Bonds Being Refunded, the Revenue Fund shall be disbursed only as follows:

(1) **Bond Fund**. First, to the Bond Fund: (a) Commencing September 10, 1991, through December 10, 1991, one-fourth (1/4th) of the amount which, when added to accrued interest received from the Series 1991 Bonds, will be sufficient to pay all interest coming due January 1, 1992, and commencing January 10, 1992, one-sixth (1/6th) of the interest becoming due on the next interest payment date on all of the Bonds then Outstanding and; (b) Commencing September 10, 1991, through June 10, 1992, one-tenth (1/10th) and commencing July 10, 1992, one-twelfth (1/12th) of the principal becoming due on the next succeeding principal or mandatory redemption payment date on all bonds then Outstanding. The Bond Fund shall be a trust fund and shall be used solely for the purpose of paying the principal of and interest on the Bonds.

(2) **Reimbursement Fund**. Second, if a Drawdown occurs, to the Reimbursement Fund commencing the tenth (10th) day of the first month following a Drawdown and each month thereafter for the next succeeding eleven (11) months, or until the Reimbursement Fund contains amounts sufficient to reimburse all Policy Costs, or all Policy Costs with respect to such Drawdown have been paid, an amount equal to at least one-twelfth (1/12th) of such Policy Costs in the Reimbursement Fund shall be used only to pay Policy Costs. Policy Costs with respect to any Drawdown that occurs against more than one Reserve Fund Guarantor shall be reimbursed on a pro rate basis. Each Supplemental Resolution increased the amounts to be deposited to the Bond and other Funds to cover the respective deposits for the respective Parity Bonds then authorized. If the City fails to repay any Policy Costs, the Reserve Fund Guarantor(s) may exercise all remedies available at law or under the Master Resolution other than (i) acceleration of the Bonds or (ii) remedies adversely affecting the Owner's rights. The Paying Agent acting as the Owners fiduciary shall hold all Reserve Fund Guaranties. Reserve Fund Guaranties shall expire no earlier than the final maturity date of the series for which said Guaranty applies.

(3) **Reserve Fund**. Third, on or before the tenth (10th) day of each month to the Reserve Fund an amount equal to one ninety-sixth (1/96th) of the amount required to restore the Post-2002 Reserve Value to the Post-2002 Reserve Requirement within an eight-year period, or such amount as is required to restore the Post-2002 Reserve Fund Value to the Post-2002 Reserve Requirement after a Reserve Fund withdrawal occurs as to the Post-2002 Reserve Fund. If, on any principal or interest payment date, a deficiency exists, then: (a) if there are investments or cash in the Post-2002 Reserve Fund, such investments shall be liquidated and the cash and investment proceeds transferred to the Bond Fund; and (b) if the deficiency is not then cured the Paying Agent shall deliver a request for drawdown to the Reserve Fund Guarantor(s). All drawdown and Reserve Fund proceeds shall be applied to the payment of the

interest on, or principal of, the Bonds then due. If Parity Bonds are hereafter originally issued, the proceedings for such Post-2002 Bonds shall not require a deposit to the Post-2002 Reserve Fund unless the City is then required to fund a Post-2002 Reserve Fund; if the Parity Bonds are originally issued during a period the City is then required to maintain the Post-2002 Reserve Fund, the proceedings for such Parity Bonds shall provide for an increase in the Post-2002 Reserve Fund Value sufficient to meet the Post-2002 Reserve Fund Requirement immediately after the issuance of such Post-2002 Parity Bonds.

Drawdowns upon Reserve Fund Guaranties required to pay principal and interest will be replaced therein from the first money in the Revenue Fund thereafter received which is not required for current transfers into the Bond Fund pursuant to subparagraphs (1) or (2) of this subsection. The Post-2002 Reserve Fund shall contain two accounts, the Contributed Reserve Account and the Capitalized Reserve Account. The two accounts are created to segregate Post-2002 Reserve Fund Moneys and Investments to provide a means of tracking Post-2002 Reserve Fund deposits and investment income thereon for purposes of the Internal Revenue Code of 1986, as amended, or any comparable provision requiring such tracking. All Post-2002 Reserve Fund deposits made from Net Revenues or other available moneys of the City shall be deposited to the Contributed Reserve Account. All Bond proceeds deposited to the Post-2002 Reserve Fund shall be deposited into the Capitalized Reserve Account. Any proceedings hereinafter taken with respect to the issuance of Parity Bonds may satisfy the amount to be deposited in either account, so long as the minimum amount required by the Master Resolution to be deposited to the Post-2002 Reserve Fund shall be so deposited. All Post-2002 Reserve Fund Guaranties shall be deemed to be deposited to, and a part of the Post-2002 Reserve Fund Capitalized Reserve Account.

(4) **Rebate Fund**. Fourth, on or before 30 days after the last day of each Bond Year, to the Rebate Fund the amount determined necessary to cause the amount in the Rebate Fund to equal the cumulative arbitrage rebate obligation.

(5) **Replacement Fund**. Fifth, to the Replacement Fund at least 2% of the previous month's Revenues until at least 2% of the value of all tangible assets of the System as shown on the balance sheet in the most recent audit, has been so accumulated. The City may limit additional payments if the balance equals 2% of the value of all tangible assets of the System as shown by the most recent audit. Any money in such Fund may be used to: (a) Pay any sums due to the holders of the Bonds Being Refunded if not paid from the income and proceeds of the investments held under the Depository Trust Agreement. (b) Pay currently maturing the Bond principal and interest to the extent the Bond and the Reserve Funds are insufficiency for such purpose. (c) Acquire System properties. (d) Make other improvements or repairs to the System.

C. All money remaining in the Revenue Fund after all of the payments required above have been made, may be used for any lawful City purpose. Moneys in the Revenue, Bond, Reserve, Reimbursement and Rebate Funds may be invested and reinvested by the City in Permitted Investments. All investment income, except Rebate Fund investment income, shall be regarded as System Revenues and deposited in the Revenue Fund. Such investments shall be liquidated as needed and the proceeds applied to the purpose for which the respective fund or account was created. Moneys in the Construction and Replacement Funds may be invested in any lawful investment.

D. Proceeds from the Series 1991 Bonds not used to advance refund the Bonds Being Refunded shall be deposited in the Construction Fund and used for any purpose permitted by the Master Resolution or the ballot authorizing the Revenue Bonds. The Construction Fund shall be divided into separate accounts in order to segregate proceeds from differing series of Bonds.

Covenants Regarding the Operation of the System. The City covenants and agrees with each and every Owner that it will: (A) maintain the System in good condition and operate the same in an efficient manner and at reasonable cost, and shall not permit free System services to be furnished to any consumer or user; (B) maintain insurance on all System properties (which may be in the form of or include an adequately-funded self-insurance program) with coverage normally carried by municipalities or private companies engaged in a similar business. System self-insurance may be maintained either separately or in connection with any Citywide self-insurance program if any such program is in writing. The proceeds of any such insurance, except public liability insurance, received by the City shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund; (C) keep proper books and accounts for the System, which will be audited at the end of each Fiscal Year in accordance with generally accepted governmental accounting practices; The City further will furnish copies of such audits to any Owner at their request, within one hundred eighty (I 80) days after the close of each Fiscal Year; (D) faithfully and punctually perform all legal duties with reference to the System; (E) not sell, lease, mortgage or in any manner dispose of the System or any part thereof, until all of the Bonds and the City's obligations under any Agreement shall have been paid in full except for the disposition of inexpedient property if the proceeds of the disposition are placed in the Revenue Fund; (F) prior to the beginning of each Fiscal Year, prepare and adopt a budget of estimated Revenues and Operating Expenses for the ensuing Fiscal Year, and undertake to operate the System within such budget to the best of its ability and make copies of such budgets and amendments thereto available to any Owner upon request; (G) to the extend allowed by law, discontinue the service to any premises the owner or occupant of which shall be delinquent for a period beyond that allowed by City policy and not resume service until all delinquent charges, with interest and penalties, shall have been paid; (H) pay and discharge all taxes, assessments or other governmental charges, if any, lawfully imposed upon the System or the Revenues when due, and all lawful claims for labor and materials and supplies which, if unpaid, might become a lien or charge on the System or the Revenues, or which might impair the security of the Bonds and, subject to the provisions of the Master Resolution, will duly observe and conform to all valid requirements of any governmental authority relative to the System; (I) deposit the net proceeds realized by the City from any eminent domain proceeding concerning the System in the Revenue Fund; (J) not, to the extent allowed by law, grant a franchise or a permit for the operation of any competing System within the existing service area of the City's respective utility system, provided however, that this covenant shall not prohibit the City from entering into "privatization" contracts, agreements or other similar arrangements with private parties; (K) not issue bonds or other obligations superior in lien to the Bonds or on a parity with the Bonds except in accordance with the Master Resolution; (L) not violate the terms of any Agreement and give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Remedies of Owners. Subject to the terms of the Master Resolution, any Owner may by suit in any court of competent jurisdiction protect the lien on the Net Revenues and enforce performance of all duties imposed upon the City. If any default be made in the payment of principal of or interest on any of the Bonds, any court having jurisdiction may appoint a receiver to administer the System to charge and collect sufficient fees to pay Operating Expenses, and make all payments to the Bond, Reimbursement and Reserve Funds required.

Equality of Lien; Prohibition of Future Lien. The Bonds shall each enjoy complete parity of lien on the Net Revenues. Parity Bonds may be issued on a party with the Bonds only if all of the following conditions are met: (1) The Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Parity Bonds must have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all outstanding Bonds immediately after issuance of such Parity Bonds and said Net Revenues must also have been sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year as shown by a certificate signed by the Finance Director. For the purposes of the computation required by this subsection, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) If all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing water, sewer, gas, electrical, garbage or rubbish system properties, there may be added to the Net Revenues of such preceding Fiscal Year the net revenues derived from the operation of such existing water, sewer, gas, electrical or solid waste (garbage and rubbish) System properties during the immediately preceding Fiscal Year as estimated by an engineer or engineering firm which shall have a wide and favorable reputation in respect to such matters, and (ii) if during such preceding Fiscal Year, the City shall have increased its System rates or charges, there may be added to the Net Revenues of such Fiscal Year the increased amount of net revenues which would have been received from the operation of the System during such Fiscal Year had such increase been in effect throughout such Fiscal Year, such increased amount of Net Revenues to be estimated by an engineer or engineering firm which shall have a wide and favorable repute in respect to such matters; (3) The Parity Bonds proceeds must be used solely for System extensions, renewals, improvements, or replacements or to refund any Bonds or general obligation bonds issued for System purposes; and (4) if on the date of issuance of any Parity Bond the Reserve Fund is required to be maintained, the Post-2002 Reserve Fund Value shall be increased in order that the Post- 2002 Reserve Fund Value equal or exceed the Post-2002 Reserve Requirement immediately after issuance of such Parity Bonds, at the City Council's option, by: (i) the deposit of Parity Bond proceeds or available moneys of the City to the Post-2002 Reserve Fund or the immediate delivery of a Post-2002 Reserve Fund Guaranty to the Paying Agent, or any combination thereof.

All or any part of the Bonds may be refunded and the refunding bonds so issued shall enjoy complete equality of lien with the Bonds so refunded, if any there be, and the refunding bonds shall continue to enjoy whatever priority of lien enjoyed by the Bonds being refunded.

Resolution a Contract. The provisions of the Master Resolution are deemed incorporated into the Bonds themselves and shall constitute a contract between the City, any Reserve Fund Guarantor and the Owner or Owners.

Modification of Resolution.

A. Without the consent of or notice to any Owner, the Master Resolution may be modified for one or more of the following purposes: (1) To cure any ambiguity or informal defect or inconsistency; (2) To grant to the Owners any additional authority that may lawfully be granted; (3) To secure additional Revenues or provide additional security or reserves for the Bonds; (4) To comply with the requirements of any federal securities laws or the Trust Indenture Act of 1939; (5) To permit, preserve or continue (upon a change in the Internal Revenue Code (the "***Code***") requiring a Supplement to continue such exclusion) the exclusion of the Bonds' interest income from gross income as defined by the Code or the exemption from State income taxes and to preserve the power of the City to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized under the Master Resolution) the interest income on which is likewise excluded from gross income; (8) To provide any remedies and assurances needed to induce Reserve Fund Guarantors to issue Reserve Fund Guaranties or Bond Insurers to issue Municipal Bond Insurance Policies.

B. Except as provided in subsection A above, the Owners of fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciate Bond as its principal amount) of the Bonds then Outstanding shall have the right to consent to and approve modifications of any terms or provisions except: (1) Changes in the maturity of any Outstanding Bond. (2) Changes in the interest rate on any Outstanding Bond. (3) Reduction of the principal or redemption premium payable on any Bond. (4) Modification of the principal, interest or redemption premium payment terms on any Bond or imposes any adverse conditions on such payments. (5) Modifications which adversely affect the rights of the Owners of less than all Bonds then Outstanding.

C. No amendment proposed shall become effective until approved by each Reserve Fund Guarantor and each Bond Insurer.

Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

A. If any Bond's principal or interest shall be paid by a Reserve Fund Guarantor, (i) the pledge of the Net Revenues and all of the City's obligations shall continue to exist and such Reserve Fund Guarantor shall be fully subrogated to all of such Owner's rights.

B. The City may treat the consent of any Bond Insurer as the consent of the Owners of any Bonds then insured by such Insurer, if the credit of said Insurer is then in one of the two highest grades of municipal securities by one of the two most widely recognized rating agencies then rating municipal bond credits.

C. If FGIC is not in default of any payment provision under its municipal Bond Insurance Policy, FGIC shall be deemed the exclusive owner of all Series 1991 Bonds to initiate any action or remedy to be undertaken or to approve any modification or amendment of the Master Resolution.

D. To the extent that FGIC makes payment of principal of or interest on the Series 1991 Bonds, it shall become the Owner of such Bonds and appurtenant interest payments. FGIC shall be fully subrogated to all of the Owner's rights thereunder, including the Owner's right to payment thereof.

E. If Series 1991 Bond principal or interest is paid by FGIC pursuant to the Municipal Bond Insurance Policy, (i) the pledge of the Net Revenues and all the City's obligations to the Owners shall continue to exist and FGIC shall be fully subrogated to all rights of such Owners in accordance with the terms and conditions of subparagraph (d) above and the Municipal Bond Insurance Policy, and (ii) the City shall pay interest to FGIC on amounts so paid at the Reimbursement Rate.

F. Without FGIC's consent no Bonds may be issued for solid waste purposes (garbage and rubbish) in an amount which, immediately after the issuance of such Bonds, would result in Bonds then outstanding for solid waste purposes in an amount in excess of the greater of $12,000,000 or ten percent (10%) of the total of all Bonds then outstanding.

Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at the market value exclusive of accrued interest. A valuation shall occur annually on the fist day of each Bond Year and immediately upon withdrawal from the Reserve Fund. If the Reserve Fund Value shall ever be less than the Reserve Requirement, each Reserve Fund Guarantor shall be notified and such deficiency remedied in twelve (12) substantially equal monthly payments.

Reporting Requirements.

A. The City will file or cause to be filed with each Reserve Fund Guarantor and issuer of a Municipal Bond Insurance Policy any official statement issued by, or on behalf of, the City in connection with the incurrence of any Parity Bonds issued by the City.

B. The City promises and agrees promptly to provide or cause to be provided to any issuer of a Municipal Bond Insurance Policy and any Reserve Fund Guarantor such financial, statistical and other factual information regarding the City as any such issue or Guarantor shall from time to time reasonably request.

C. The City agrees, so long as a Municipal Bond Insurance Policy is in effect, to provide not more than ten (10) days after the end of each Fiscal Year, a certificate of its Finance Director to the effect that the City is in compliance with the terms and conditions of the Master Resolution, or, specifying the nature of any noncompliance and the remedial action taken or proposed to be taken to cure such noncompliance.

D. The City agrees, so long as a Municipal Bond Insurance Policy or Reserve Fund Guaranty is in effect, to provide promptly to each Municipal Bond Insurance Policy issue or Reserve Fund Guarantor (i) its audited (or, if not audited, then unaudited) financial statements and quarterly financial statements, (ii) its annual report, (iii) all reports, certificates and financial information required to be filed with the Bond Registrar and Paying Agent pursuant to the Master Resolution or available at the request of Owners and (iv) all reports or certificates prepared by the consulting engineer pursuant to the Master Resolution.

Notices. The City and the Bond Registrar and Paying Agent shall notify any issuer of a Policy of Municipal Bond Insurance or Reserve Fund Guarantor within five (5) days after such entity has received notice or has knowledge of (i) any default by the City in performance of its obligations under the Master Resolution; (ii) the withdrawal of amounts on deposit in the Reserve Fund other than amounts comprising investment earnings thereon; or (iii) the failure to make any required deposit to the Bond Fund to pay principal or interest when due. Any notice that is requested to be given to Owners or the Bond Registrar and Paying Agent pursuant to the Master Resolution or any supplemental resolution shall also be provided to any issuer of a Municipal Bond Insurance Policy or Reserve Fund Guarantor.

Defeasance. Payment of all or any part of the Bonds may be provided for by the irrevocable deposit with a trustee of moneys or Governmental Obligations, or both. If the moneys and the maturing principal and interest income on such Government Obligations, if any, shall be sufficient, as evidenced by as certificate of experts in the field of calculating the sufficiency thereof, then to the extent allowed by law, Bonds the payment of which has been provided for in accordance with this section shall no longer be deemed Outstanding or secured under the Master Resolution.

Continuing Disclosure. The First Supplemental Resolution dated September 18, 1995 and all later Supplemental Resolutions contained the following Continuing Disclosure covenant: The Finance Director or Controller of the City are authorized to execute and deliver a written undertaking or agreement containing such terms and provisions as are necessary to comply with the continuing disclosure provisions of Section 240.15c2-12 General Rules and Regulations, Securities Exchange Act of 1934.

Provisions relating to the Reserve Fund. Any provision to the contrary notwithstanding, if Net Revenues during any Fiscal Year ending after June 30, 2003 do not equal or exceed one hundred seventy-five percent (175%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year, then the City will deposit, or cause to be deposited, within 180 days following the end of such Fiscal Year, to the Post-2002 Reserve Fund, moneys, investments, Reserve Fund Guaranties or any combination thereof, equal to the Post-2002 Reserve Requirement. If, thereafter, Net Revenues for two consecutive Fiscal Years equal or exceed one hundred seventy-five percent (175%) of the principal and interest requirements on all Outstanding Bonds for the respective corresponding Bond Years, any moneys, investments or Post-2002 Reserve Fund Guaranties in the Post- 2002 Reserve Fund may be released (except as otherwise limited by Reserve Fund Guaranties or related Reserve Fund Guaranty Agreements) and used for any lawful purpose, and the City's obligation to maintain the Post-2002 Reserve Fund at the Reserve Requirement will terminate, subject to a refunding of the Reserve Fund for Post-2002 Bonds, as described in this section.

SUMMARY OF TWENTY-THIRD SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Twenty-Third Supplemental Resolution, which supplements the Master Resolution and authorizes the issuance of the Utility System Revenue Refunding Bonds, Series 2012, adopted by the Mayor and Council on January 23, 2012. The summary does not purport to be a full statement of the terms of the Twenty-Third Supplemental Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Authority. The Series 2012 Refunding Bonds are authorized to be issued pursuant to Title 9, Chapter 5, Article 3, of the Arizona Revised Statutes, as amended, the Master Resolution (as amended and supplemented), the Twenty-Third Supplemental Resolution and other applicable provisions of law. It is determined that all limitations imposed on the City by A.R.S. Section 9-521 et. seq. have been met with respect to the Series 2012 Refunding Bonds. The Master Resolution, as amended and supplemented, and the Twenty-Third Supplemental Resolution, shall stay in effect until all Bonds are fully paid or provided for and all Policy Costs shall have been paid in full.

Definitions. Except as hereafter amended or added to, all definitions contained in the Master Resolution are incorporated by reference into the Twenty-Third Supplemental Resolution. The following terms shall have the following meanings in the Master Resolution and in the Twenty-Third Supplemental Resolution unless the text expressly or by necessary implication requires otherwise:

"Bond Registrar for the Series 2012 Refunding Bonds" – U.S. Bank National Association, Phoenix, Arizona, or its successor, as bond registrar.

"Bond Year" – initially the period from the date of the Series 2011 Bonds to July 1, 2011, and thereafter the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the City's Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Depository Trust Agreement for the Series 2012 Refunding Bonds" – shall mean with respect to the Series 2012 Refunding Bonds the agreement between the City and U.S. Bank National Association, as Depository Trustee, regarding the holding in trust of the securities purchased to secure payment of the Bonds Being Refunded and other matters.

"Depository Trustee for the Series 2012 Refunding Bonds" – U.S. Bank National Association, Phoenix, Arizona, or its successor, as depository trustee.

"Series 2012 Refunding Bonds" - the City's $31,580,000 Utility Systems Revenue Refunding Bonds, Series 2012.

"Twenty-Third Supplemental Resolution" – The Twenty-Third Supplemental Resolution supplementing the Master Resolution and authorizing the issuance of the Series 2012 Refunding Bonds.

Authorization of Series 2012 Refunding Bonds: Special Obligations.

A. There is authorized the issuance and sale of $31,580,000* City of Mesa, Arizona Utility Systems Revenue Refunding Bonds, Series 2012. The Series 2012 Refunding Bonds shall never be construed to be tax secured bonds of the City as defined in Section 9-531 or Section 9-521, A.R.S., or general obligation bonds of the City within the meaning of Title 35, Chapter 3, Article 3, A.R.S., or constitute a debt of the City within the Constitution and laws of the State.

B. The Series 2012 Refunding Bonds are special obligations of the City payable solely from the Net Revenues and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms, the Master Resolution, and the Twenty-Third Supplemental Resolution. Subject to the Master Resolution, the Net Revenues are pledged and assigned as security for the payment of the principal and redemption price of, and interest on, the Series 2012 Refunding Bonds in accordance with their terms, the Master Resolution and the provisions of the Twenty-Third Supplemental Resolution. All Net Revenues shall be immediately subject to the pledge of the Master Resolution, as amended and supplemented and the Twenty-Third Supplemental Resolution, without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such persons have notice thereof. Nothing contained in this section shall be construed as limiting any authority granted elsewhere in the Master Resolution to issue Parity Bonds nor shall be deemed a limitation upon the issuance of bonds, notes or other obligations under any law pertaining to the City which are secured by moneys, income and funds other than the Net Revenues and other moneys and investments pledged under the Master Resolution and the Twenty-Third Supplemental Resolution.

C. In addition to the payments required to be made into the Bond Fund required by the Master Resolution and the Supplemental Resolutions, the following additional payments shall be made to the Bond Fund with respect to the Series 2012 Refunding Bonds:

The City shall deposit in the Bond Fund:

(i) one-half (1/2) of the interest coming due on July 1, 2012 less any amount lawfully available for such purpose on May 10, 2012 and one-half (1/2) on June 10, 2012 less any amount lawfully available for such purpose; commencing on July 10, 2012 and on the tenth (10th) day of each month thereafter, one-sixth (1/6) of the interest coming due on the next semiannual interest payment date.

(ii) commencing July 10, 2012, on the tenth (10th) day of each month, one-twelfth (1/12) of the principal becoming due on the next succeeding principal payment date on all Series 2012 Refunding Bonds then Outstanding.

Resolution a Contract. The provisions of the Master Resolution, as supplemented by each Supplemental Resolution, are deemed incorporated into the Bonds themselves and shall constitute a contract between the City, any Reserve Fund Guarantor and the Owners and, no change, variation or alteration of any kind in the provisions of the Master Resolution or the Twenty-Third Supplemental Resolution shall be made in any manner, except as provided in the Master Resolution or until such time as all of the Bonds and interest due thereon have been paid in full.

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APPENDIX F

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.

NEITHER THE CITY, THE REGISTRAR NOR 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 RESOLUTIONS; (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 G

FORM OF APPROVING LEGAL OPINION

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April 4, 2012

MAYOR AND COUNCIL
CITY OF MESA, ARIZONA

Re: City of Mesa, Arizona, Utility Systems Revenue Refunding Bonds, Series 2012

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the "*City*") of its $31,580,000 aggregate principal amount of Utility Systems Revenue Refunding Bonds, Series 2012, dated April 4, 2012 (the "*Bonds*"), issued pursuant to Arizona Revised Statutes, Title 9, Chapter 5, Article 3, 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, Resolution No. 6362 adopted by the Mayor and Council of the City on July 29, 1991 (the "*Master Resolution*"), as heretofore amended and supplemented by twenty-two supplemental resolutions heretofore adopted by the Mayor and Council of the City, and as further amended and supplemented by a twenty-third supplemental resolution authorizing the issuance of the Bonds, passed and adopted by the Mayor and Council of the City (the Master Resolution, as amended and supplemented, collectively, the "*Bond Resolution*"). 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, 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. Pursuant to the Act, the Bond Resolution creates a valid lien for the security of the Bonds on the revenues derived by the City from its Utility System (as defined in the Bond Resolution) after provision for expenses of operation and maintenance of the System as provided in the Bond Resolution, on a parity, however, with the City's outstanding Utility Systems Revenue Bonds and Utility System Revenue Refunding Bonds and other obligations of the City issued or to be issued under, or in compliance with, the Bond Resolution.

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 provided for in the Bond Resolution. 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 H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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$31,580,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING
BONDS, SERIES 2012

CONTINUING DISCLOSURE CERTIFICATE
(CUSIP Base No. 590545)

This Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the City of Mesa, Arizona (the *"City*") in connection with the issuance of Utility Systems 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) Combined Schedules of Net Revenues and Debt Service Coverage;
(ii) Appendix B – Financial Data – Statement of Bonds Outstanding)

(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

<u>Note to Paragraph (12) above</u>: 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.

<u>Section 6</u>. **<u>Termination of Reporting Obligation</u>**. 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.

<u>Section 7</u>. **<u>Dissemination Agent</u>**. 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.

<u>Section 8</u>. **<u>Amendment</u>**. 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.

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

<u>Section 10</u>. **<u>Additional Information</u>**. 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.

<u>Section 11</u>. **<u>Default</u>**. 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 Net 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: $31,580,000 Utility Systems Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590545

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: $31,580,000 Utility Systems Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590545

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: $31,580,000 Utility Systems Revenue Refunding Bonds, Series 2012
Dated Date of Bonds: April 4, 2012 CUSIP 590545

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