OFFICIAL STATEMENT DATED MAY 16, 2013

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. 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 tax 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. In the opinion of Bond Counsel, interest income on the Bonds is exempt from Arizona income taxes. See "TAX EXEMPTION" and "BOND PREMIUM" herein.

$47,290,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2013

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

The City of Mesa, Arizona (the "City") Utility Systems Revenue Bonds, Series 2013 (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 the amount of $5,000 of principal due on a specific maturity date and integral multiples thereof. The Bonds are being issued to provide funds to (i) construct and acquire improvements to the utility systems of the City and (ii) pay costs of issuance of the Bonds.

Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2014, until maturity or redemption prior to maturity, and principal of the Bonds will be payable in accordance with the maturity schedule set forth below. So long as the Bonds are in book-entry-only form, principal of and interest on the Bonds will be paid to DTC for credit to the accounts of the DTC participants and, in turn, to the accounts of the owners of beneficial interests in the Bonds (the "Beneficial Owners"). See APPENDIX F – "Book-Entry-Only System."

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2037	$47,290,000	4.00%	3.75% *

* Priced to the July 1, 2023 optional redemption date.

The Bonds are subject to optional redemption prior to maturity as described herein under "The Bonds–Redemption Provisions."

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 are not general obligations of the City and neither constitute an indebtedness of the City when computing its limit imposed by constitutional, statutory or charter provisions or a charge against the general credit or taxing power of the City nor a liability of the City for payment of the Bonds other than from the Net Revenues. See "Security for and Sources of Payment of the Bonds."**

The Bonds are offered when, as and if issued by the City, subject to the approving opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. It is expected that the Bonds will be available for delivery on or about June 5, 2013.

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.

CITY OF MESA

CITY COUNCIL

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

CITY ADMINISTRATIVE OFFICERS

Christopher Brady, City Manager
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Chuck Odom, Senior Executive Manager
Michael Kennington, Chief Financial Officer
Kathryn Sorensen, Water Resources Department Director
Frank McRae, Energy Resources Department Director
Dee Ann Mickelsen, Interim City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Wedbush Securities Inc.
Phoenix, Arizona

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 Bonds, Series 2013 (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 or Wedbush Securities, the City's financial advisor. The presentation of information, including tables of receipts from taxes and other revenue sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No person, including any broker, dealer or salesman has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. 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 and Bond Counsel (as defined herein) are not actuaries, nor have any of them performed any actuarial or other analysis of the City's unfunded liabilities under the Arizona State Retirement System, the Arizona Public Safety Personnel Retirement System or the Elected Officials Retirement Plan.

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 promulgated by the Securities and Exchange Commission (the "Rule").

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OFFICIAL STATEMENT

$47,290,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2013

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the appendices hereto, has been prepared by the City of Mesa, Arizona (the "City"), in connection with the original issuance of $47,290,000 Utility Systems Revenue Bonds, Series 2013 (the "Bonds"), identified on the cover page hereof. Certain information concerning the authorization, purpose, terms, conditions of sale, security for and sources of payment of the Bonds is set forth in this Official Statement.

Initially, the Bonds will be administered under a book-entry-only system (the "Book-Entry-Only System") by The Depository Trust Company, a registered securities depository ("DTC"). Unless and until the Book-Entry-Only System is discontinued, the Bonds will be registered in the name of Cede & Co., as nominee of DTC. 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 to DTC and, in turn, 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. 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 – "Summary 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-six 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-Seventh Supplemental Resolution to be adopted by the Mayor and Council of the City on May 16, 2013 (the "Twenty-Seventh 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 – "Summary of the Master Resolution," herein.) The Bonds are being issued to provide funds to (i) construct and acquire improvements to the System and (ii) pay costs related to the issuance of the Bonds.

Set forth in the table below is a listing of the projects expected to be funded by the Bonds and estimates of their respective costs.

Projects to be Funded	Estimated Cost
Natural Gas System Improvements	$ 5,335,000
Water System Improvements	29,610,000
Wastewater System Improvements	7,975,000
Electric System Improvements	4,370,000
Total	$47,290,000

In addition to the Bonds, the City will issue $59,960,000 of General Obligation Bonds, Series 2013, concurrently with the Bonds, but pursuant to a separate official statement.

A summary of the Master Resolution is included in APPENDIX E of this Official Statement. Such summary does 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-Seventh 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-Seventh 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 initial delivery, and will bear interest from such date payable on January 1, 2014 and semiannually thereafter on January 1 and July 1 of each year (each an "Interest Payment Date") until maturity or prior redemption. The Bonds will mature on the date and in the principal amount and bear interest at the rate set forth on the cover page of this Official Statement.

The Bonds will be issued only in fully-registered form in the amounts of $5,000 of principal due on a specific maturity date and 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 OFFICAL STATEMENT, EXCEPT THOSE UNDER THE HEADINGS "TAX EXEMPTION" AND "BOND PREMIUM," TO THE OWNERS OR REGISTERED OWNERS OF THE BONDS WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

So long as the Book-Entry-Only System is in effect, U.S. Bank National Association will act as the registrar and paying agent for the Bonds (the "Registrar" and "Paying Agent"). If the Book-Entry-Only System is discontinued, interest on the Bonds will be payable by check drawn on a bank or trust company doing business in the State, to be named by the City as the successor Registrar and Paying Agent, 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 (the "Bond Register") 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 or upon redemption prior to maturity upon presentation and surrender on the Bonds to the designated corporate trust office of the Paying Agent. Additionally, if the Book-Entry-Only System is discontinued, payment of interest may also be made by wire transfer upon twenty (20) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any owner of at least $1,000,000 aggregate principal amount of the Bonds. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each.

The City may change the Registrar or the Paying Agent at any time without prior notice. The City may retain separate financial institutions to serve as Registrar and Paying Agent.

Redemption Provisions

Optional Redemption

The Bonds are subject to call for redemption prior to maturity, at the option of the City, in whole or in part, on July 1, 2023, or on any date thereafter by the payment of a redemption price equal to the principal amount of each Bond called for redemption plus accrued interest to the date fixed for redemption, but without premium.

Notice of Redemption

So long as the Bonds are held under the Book-Entry-Only System, notices of redemption will be sent to DTC, in the manner required by DTC. If the Book-Entry-Only System is discontinued, notice of redemption of any Bond will be mailed to the registered owner of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the Registrar not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Failure to properly give notice of redemption shall not affect the redemption of any Bond for which notice was properly given. Notice of any redemption will also be sent to the Municipal Securities Rulemaking Board (the "MSRB"), currently through the MSRB's Electronic Municipal Market Access system ("EMMA"), in the manner required by the MSRB, but no defect in said further notice or record nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

If monies for the payment of the redemption price and accrued interest are not held in separate accounts by the City or by a Paying Agent prior to sending the notice of redemption, such redemption shall be conditional on such monies being so held on or prior to the date set for redemption and if not so held by such date the redemption shall be cancelled and be of no force and effect. The notice of redemption shall describe the conditional nature of the redemption.

Effect of Call for Redemption

Notice of redemption having been given in the manner described above, the Bonds or portions thereof called for redemption will become due and payable on the redemption date and if an amount of money sufficient to redeem all the Bonds or portions thereof called for redemption is held in separate accounts by the City or by a Paying Agent, then the Bonds or portions thereof called for redemption will cease to bear interest from and after such redemption date.

Redemption of Less Than All of a Bond

The City may redeem an amount which is included in a Bond in the denomination in excess of, but divisible by, $5,000. In that event, if the Book-Entry-Only System is discontinued, the registered owner shall submit the Bond for partial redemption and the Paying Agent shall make such partial payment and the Registrar shall cause a new Bond in a principal amount which reflects the redemption so made to be authenticated, issued and delivered to the registered owner thereof.

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 and Utility Systems Revenue Refunding Bonds previously issued in twenty-six separate series and presently outstanding in the aggregate principal amount of $954,992,975 (collectively, with the Bonds, the "Parity Bonds"). See "Schedule of Combined Annual Utility Systems Revenue Bond Estimated Debt Service Requirements and Debt Service Coverage," APPENDIX C – "City of Mesa, Arizona – Utility Systems Information" and APPENDIX E – "Summary of the Master Resolution."

The Bonds do not constitute an indebtedness or pledge of the general credit of the City within the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness, 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 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 obligation to reimburse the issuer of any reserve fund guaranty for any claims thereunder ("Policy Costs") due and owing in such Fiscal Year. But, see risk factors and litigation regarding utility rate setting ordinances, for a discussion of litigation that may affect future coverage.

Reserve Fund

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, 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 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 set forth in the 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 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, natural 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 is currently authorized to issue $108,598,190 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	$ 19,095,000	$ 19,095,000
Water System Improvements	0	402	28,645,000	28,645,402
Wastewater System Improvements	0	10,867,788	39,000,000	49,867,788
Electric System Improvements	0	0	3,320,000	3,320,000
Solid Waste System Improvements	7,670,000	0	0	7,670,000
Total	$ 7,670,000	$10,868,190	$90,060,000	$108,598,190

* 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.

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.

	2011/12	2010/11	2009/10	2008/09	2007/08
System Revenues:*					
Electric System	$ 34,893,745	$ 33,439,877	$ 33,296,661	$ 36,292,878	$ 35,467,407
Gas System	39,687,911	41,564,836	38,908,250	42,169,355	47,043,655
Water System	115,509,376	104,081,108	102,933,842	98,303,183	113,196,899
Wastewater System	65,004,181	60,170,089	57,886,967	55,047,920	56,123,152
Solid Waste System	47,672,855	47,743,120	46,746,901	46,788,375	46,859,574
Total System Revenues	$ 302,768,068	$ 286,999,030	$ 279,772,621	$ 278,601,711	$ 298,690,687
System Expenses:*					
Electric System	$ 22,474,739	$ 22,141,338	$ 21,851,913	$ 23,836,816	$ 25,265,582
Gas System	25,302,392	27,953,350	27,064,001	29,164,032	37,227,816
Water System	34,263,918	35,202,564	37,779,141	35,086,549	40,624,635
Wastewater System	22,916,754	19,481,237	21,151,463	21,075,812	22,682,057
Solid Waste System	26,652,787	26,534,703	25,963,715	27,569,339	28,160,851
Total System Expense	$ 131,610,590	$ 131,313,192	$ 133,810,233	$ 136,732,548	$ 153,960,941
Net Income Available For Debt Service (Net Revenues)	$ 171,157,478	$ 155,685,838	$ 145,962,388	$ 141,869,163	$ 144,729,746
Utility Systems Revenue Bond Debt Service Requirements**	$ 64,830,323	$ 55,398,585	$ 50,854,631	$ 47,039,639	$ 42,618,198
Approximate Debt Service Coverage Provided By Net Revenues	2.64x	2.81x	2.87x	3.02x	3.40x

* 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.

** Interest on the City's Taxable Utility Systems Revenue Bonds, Series 2009 (Build America Bonds – Direct Pay) and the City's Taxable Utility Systems Revenue Bonds, Series 2010 (Build America Bonds – Direct Pay) is without reduction of the federal subsidy payments. See footnote (l) on page B-3 herein.

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 2011/12, 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.

Additional Bonds and Other Obligations of City. 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, and 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, Arizona Utility 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. § 9-511.01 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 General Purpose Financial Statements of the City included in APPENDIX D hereto are for the fiscal year ended June 30, 2012 and may not reflect the current financial positions of the City. Such financial statements are the most recent audited financial statements for the City.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
The Bonds	$ 47,290,000.00
Net Original Issue Premium	982,686.20
Total Sources of Funds	$ 48,272,686.20
Uses of Funds:	
Deposit to Construction Fund*	$ 47,290,000.00
Underwriter's Compensation	591,125.00
Deposit to Bond Fund	391,561.20
Total Uses of Funds	$ 48,272,686.20

* Certain costs incurred by the City in connection with the issuance of the Bonds will be paid from the Construction Fund.

DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

The following schedule sets forth (i) the annual debt service requirements of the City's outstanding Parity Bonds (ii) the annual debt service requirements of the Bonds, (iii) the total annual utility systems revenue bond debt service requirements following issuance of the Bonds and (iv) the debt service coverage ratio provided for such total annual debt service requirements based upon the City's fiscal year 2011/12 Net Revenues ($171,157,478).

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

Fiscal Year	Utility Systems Revenue Bonds Outstanding		The Bonds		Combined Annual Debt Service Requirements	Debt Service Coverage Provided By Net Revenues (d)
	Principal	Interest (a)	Principal	Interest (c)		
2012/13	$ 21,752,973	$46,428,983			$68,181,956	2.51x
2013/14	22,675,651	45,212,690		$2,028,216	69,916,556	
2014/15	23,988,389	44,076,124		1,891,600	69,956,113	
2015/16	24,931,189	42,891,545		1,891,600	69,714,334	
2016/17	26,204,052	41,682,199		1,891,600	69,777,851	
2017/18	32,016,981	40,492,856		1,891,600	74,401,437	
2018/19	34,964,976	38,941,915		1,891,600	75,798,491	2.26x
2019/20	30,228,040	37,190,101		1,891,600	69,309,741	
2020/21	31,671,173	35,750,588		1,891,600	69,313,361	
2021/22	33,194,378	34,226,564		1,891,600	69,312,542	
2022/23	34,817,657	32,602,435		1,891,600	69,311,692	
2023/24	36,566,010	30,854,987		1,891,600	69,312,597	
2024/25	38,434,440	28,985,479		1,891,600	69,311,519	
2025/26	40,167,949	27,252,157		1,891,600	69,311,706	
2026/27	41,921,538	25,496,344		1,891,600	69,309,482	
2027/28	43,800,210	23,618,457		1,891,600	69,310,267	
2028/29	45,772,367	21,647,808		1,891,600	69,311,775	
2029/30	47,820,000	19,599,393		1,891,600	69,310,993	
2030/31	49,985,000	17,435,931		1,891,600	69,312,531	
2031/32	52,195,000	15,226,851		1,891,600	69,313,451	
2032/33	54,770,000	12,649,430		1,891,600	69,311,030	
2033/34	58,175,000	9,244,363		1,891,600	69,310,963	
2034/35	61,640,000	5,777,691		1,891,600	69,309,291	
2035/36	67,300,000	2,692,000		1,891,600	71,883,600	
2036/37	-	-	$47,290,000	1,891,600	49,181,600	
	$954,992,975		$47,290,000			

(a) Interest on the City's Taxable Utility Systems Revenue Bonds, Series 2009 (Build America Bonds – (Direct Pay)) and the City's Taxable Utility Systems Revenue Bonds, Series 2010 (Build America Bonds – Direct Pay) is without reduction of the federal subsidy payments. See footnote (l) on page B-3 herein.

(b) Interest on the Bonds is actual.

(c) Debt Service Coverage is computed using the Net Revenues of $171,157,478 for Fiscal Year 2011/12. See "COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE", herein. The Fiscal Year 2011/12 Net Revenues provide coverage for the total estimated annual debt service requirements in Fiscal Year 2012/13 of approximately 2.51x and approximately 2.26x 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.

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 99 Church Street, 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 ratings may have an adverse effect on the market price of the Bonds. The City will covenant in its continuing disclosure certificate (see "Continuing Secondary Market Disclosure" below) that it will cause notices to be filed with the Municipal Securities Rulemaking Board (the "MSRB") of any formal change in the ratings relating to the Bonds.

LEGAL MATTERS

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

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. In the opinion of Bond Counsel, interest income on the Bonds 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 Bonds do not provide for an adjustment in interest date or yield in the event of taxability and an event of taxability does not cause an acceleration of the principal on the Bonds. 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.

Currently and from time to time, there are legislative proposals in Congress which, if enacted could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

BOND PREMIUM

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

LITIGATION

At the time of delivery of the Bonds, an officer of the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending, or to the knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or that questions the City's right or authority to receive the sources of payment of the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds or the Continuing Disclosure Certificate, or contesting in any way the completeness or accuracy of this Official Statement, or any amendment or supplement thereto, or contesting the power or authority of the City to execute and deliver the Continuing Disclosure Certificate, or wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Continuing Disclosure Certificate, or have a material adverse effect on the transaction contemplated by this Official Statement.

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.

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, 2014 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notices"), as set forth in APPENDIX G – "Form of Continuing Disclosure Certificate" (the "Continuing Disclosure Certificate"). The Annual Reports and Notices and any other documentation or information required to be filed by such covenants will be filed by the City with the MSRB, in a format prescribed by the MSRB. Currently the MSRB 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 – "Form of Continuing Disclosure Certificate" hereto. A failure by the City to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Also pursuant to Arizona law, the ability of the City to comply with such covenants is subject to annual appropriation of funds sufficient to provide for the costs of compliance with such covenants. Should the City not comply with such covenants due to a failure to appropriate for such purposes, the City has covenanted to provide notice of such fact in the same fashion it provides the Notices. Absence of continuing disclosure due to non-appropriation or otherwise, could adversely affect the Bonds and specifically their market price and transferability.

The Annual Reports which were due on February 1, 2011 and February 1, 2012 with respect to past undertakings entered into by the City were timely filed in compliance with the Rule and the Annual Report which was due on February 1, 2013 was filed late on February 12, 2013. However, until February 27, 2013, the Annual Reports were not associated with the nine-digit CUSIP numbers for bonds issued in calendar years 2010, 2011 and 2012. The City has established procedures to ensure timely and proper filing of its Annual Reports.

Otherwise, the City has been and is in material compliance over the last five years with all of its prior undertakings for purposes of the Rule.

CANCELLATION OF CONTRACTS

As required by the provisions of A.R.S. Section 38-511, as amended, all contracts entered into by the City must give notice of the provisions of A.R.S. Section 38-511. A.R.S. Section 38-511 provides that within three years of its execution, the City may 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.

FINANCIAL ADVISOR

Wedbush Securities is Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Wedbush Securities, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

GENERAL PURPOSE FINANCIAL STATEMENTS

The Audited General Purpose Financial Statements of the City for the year ended June 30, 2012, a copy of which is included in APPENDIX D of this Official Statement, have been audited by CliftonLarsonAllen 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, 2012 and are not current. The City neither requested nor obtained the consent of CliftonLarsonAllen LLP to include the report, and CliftonLarsonAllen 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 or estimates, 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 original purchasers or subsequent owners of the Bonds.

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

CITY OF MESA, ARIZONA

By: /s/ Chuck Odom
Senior Executive Manager

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CITY OF MESA, ARIZONA
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The City of Mesa (the "City" or "Mesa") 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 444,856. The following table illustrates the City's population statistics since 1990, along with the population statistics for the County and the State, respectively.

POPULATION STATISTICS

Year	City of Mesa	Maricopa County	State of Arizona
2012 Estimate (a)	444,856	3,884,705	6,498,569
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.

(a) Estimate as of July 1, 2012 (Published December 15, 2012).

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 Council member 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.

Michael Kennington, Chief Financial Officer. Mr. Kennington was hired as the City's Chief Financial Officer in July 2012 and is responsible for the City's overall financial policies, strategies, planning and forecasts. He has a Master of Accountancy degree and Master of Business Administration degree from Brigham Young University and is a Certified Public Accountant.

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 (b)	Maricopa County (b)	City of Mesa (b)
2013	8.1% (c)	8.0% (d)	6.8% (d)	6.7% (d)
2012	8.1	8.3 (e)	7.0 (e)	6.9 (e)
2011	8.9	9.5	8.4	8.3
2010	9.6	10.5	9.6	8.9
2009	9.3	9.9	9.1	8.4
2008	5.8	6.0	5.2	4.8

(b) On February 29, 2012, the Local Area Unemployment Statistics ("LAUS") program released 2011 annual average labor force estimates for census regions and divisions for all States. Data was revised back to January 2007 to incorporate new population controls, updated inputs, reestimation of models, and adjustment to new census division and national control totals. On April 20, 2012, routine revisions were made to data from 2007 through 2011 for geographic areas below the State level. For all areas, estimation inputs were revised back to 2010, while the revisions for 2007–09 consisted of controlling to the new State totals described above.

(c) Data is not seasonally adjusted and is a preliminary average through March 2013.

(d) Data is not seasonally adjusted and is a preliminary average through February 2013.

(e) Data is not seasonally adjusted and is a preliminary average.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

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	9,100
Banner Health System	Hospital Network	8,050
Boeing, Inc.	Helicopter Manufacturing and Assembly	4,500
City of Mesa	Government	4,200
Empire Southwest / Caterpillar LLC	Construction Machinery	1,800
Maricopa County Government	Government	1,300
The Kroger Company	Grocery Store	1,000
Mountain Vista Medical Center	Hospital	800
Home Depot	Retail	750
Mesa Community College	Education	700

Source: The City – Office of Economic Development and Phoenix Business Journal Book of Lists 2012.

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 three airlines: Allegiant Air, Spirit Airlines and Frontier Airlines. Allegiant Air, Spirit Airlines and Frontier Airlines provide direct service to over 30 cities.

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 is currently overseeing the 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 2008-2011/12.

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

Year (f)	Residential	Commercial	Industrial	Other	Total
2011/12	$243,762	$331,860	-	$2,546	$578,168
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

(f) Data from 2008 through 2011 is for calendar years. Data for 2011/12 is for the fiscal year.

Source: Arizona State University Realty Studies and the City. 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 (g)	Total New Housing Units
2011/12	739
2011	1,447
2010	782
2009	1,093
2008	1,460

(g) Data from 2008 through 2011 is for calendar years. Data for 2011/12 is for the fiscal year.

Source: Arizona State University Realty Studies and the City. 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
2012	$3,557,501,931
2011	3,458,279,940
2010	3,662,333,085
2009	4,955,009,829
2008	5,638,200,343

Source: The City.

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 2012/13)
City of Mesa, Arizona

Total General Obligation Bonds Outstanding	$ 350,230,000	(a)
Total Utility Systems Revenue Bonds to Be Outstanding	1,002,282,975	(b)
Total Street and Highway User Revenue Bonds Outstanding	120,795,000	(c)
Total Excise Tax Obligations Outstanding	236,115,000	(d)
Primary Assessed Valuation	$2,758,663,543	(e)
Secondary Assessed Valuation	2,770,422,084	(e)
Estimated Full Cash Value	22,355,239,037	(f)

Estimated Net Assessed Values (For Fiscal Year 2013/14) (g)

Primary Assessed Valuation	$2,540,851,490
Secondary Assessed Valuation	2,559,633,922

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

(b) Represents all utility systems revenue bonds to be outstanding following issuance of the 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 outstanding. See “Statements of Bonds Outstanding Street and Highway User Revenue Bonds 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. See “PROPERTY TAXES” for the method of determining property value and the recent constitutional amendment relating to the limitation of the amount of the increase in value of real property and improvements, including mobile homes, used for all ad valorem property tax purposes.

(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 2013/14 provided by the Arizona Department of Revenue. Valuations for Fiscal Year 2013/14 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	$ 4,020,000	
2002A	Refunding	40,105,000	7-1-10/16	5,135,000	
2003	Various Purpose	22,565,000	7-1-10/22	1,500,000	
2004	Refunding	46,445,000	7-1-09/18	46,275,000	
2005	Various Purpose	11,705,000	7-1-12/24	2,290,000	
2006	Various Purpose	9,710,000	7-1-13/25	9,710,000	
2006	Refunding	26,650,000	7-1-11/14	15,300,000	
2007	Various Purpose	15,915,000	7-1-19/27	15,915,000	
2008	Various Purpose	15,450,000	7-1-09/28	13,875,000	
2009	Various Purpose	61,830,000	7-1-10/29	48,995,000	
2010	Various Purpose	30,865,000	7-1-20/30	30,865,000	(i)
2011	Various Purpose	29,320,000	7-1-12/31	28,520,000	
2012	Refunding	31,665,000	7-1-13/22	31,665,000	
2012	Various Purpose	27,290,000	7-1-13/32	27,290,000	
2013	Refunding	8,915,000	7-1-14/24	8,915,000	
Total General Obligation Bonds Outstanding				$290,270,000	
Plus the Series 2013 General Obligation Bonds (j)				59,960,000	
Total General Obligation Bonds to Be Outstanding (j)				$350,230,000	

(h) Excludes $17,065,000 of the City's General Obligation Bonds, Series 2003, which were refunded by the City's General Obligation Refunding Bonds, Series 2012. 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) These bonds were issued as Build America Bonds and will have their related federal interest subsidy payments reduced by 8.7% in federal fiscal year 2012/13. The amount of any future federal interest subsidy payment reduction is unknown at this time. The bonds pay interest at true interest cost of 5.60% and the City currently receives semiannual federal interest subsidy payments equal to 35% of each interest amount due. The City will be required to pay the shortfall between the interest payment due and any reduction in the federal subsidy from its available revenues.

(j) The City will issue $59,960,000 of General Obligation Bonds, Series 2013 ("Series 2013 General Obligation Bonds") on June 5, 2013, by a separate official statement.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding	
2002	Utility Improvement	57,950,000	7-1-09/21	$ 5,000,000	
2002	Refunding	129,000,000	7-1-04/17	42,935,000	
2002A	Refunding	48,850,000	7-1-08/17	27,830,000	
2003	Utility Improvement	50,470,000	7-1-10/22	7,000,000	
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	127,210,000	
2007	Utility Improvement	65,550,000	7-1-23/31	65,550,000	
2008	Refunding	21,125,000	7-1-09/18	17,625,000	
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	(l)
2009	WIFA Loans	3,758,810	7-1-10/29	2,492,975	
2010	Utility Improvement	50,380,000	7-1-34	50,380,000	(l)
2011	Utility Improvement	53,950,000	7-1-35	53,950,000	
2012	Refunding	31,580,000	7-1-16,17,20,21	31,580,000	
2012	Taxable Refunding	80,295,000	7-1-20/27	80,295,000	
2012	Utility Improvement	67,300,000	7-1-36	67,300,000	
Total Utility Systems Revenue Bonds Outstanding				$954,992,975	
Plus the Bonds				47,290,000	
Total Utility Systems Revenue Bonds to Be Outstanding				$1,002,282,975	

(k) Excludes $68,830,000 principal amount of the City's Utility Systems Revenue Refunding Bonds, Series 2002, which were refunded by the City's Taxable Utility Systems Revenue Refunding Bonds, Series 2012. Excludes $15,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2003, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2012. 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.

(l) These bonds were issued as Build America Bonds and will have their related federal interest subsidy payments reduced by 8.7% in federal fiscal year 2012/13. The amount of any future federal interest subsidy payment reduction is unknown at this time. The bonds pay interest at true interest cost of 6.10% and the City currently receives semiannual federal interest subsidy payments equal to 35% of each interest amount due. The City will be required to pay the shortfall between the interest payment due and any reduction in the reduced federal subsidy from its available revenues.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Refunding	$31,985,000	7-1-04/17	$ 5,445,000
2003	Street Improvements	26,805,000	7-1-10/22	4,300,000
2004	Refunding	17,760,000	7-1-14/18	17,760,000
2004	Street Improvements	9,585,000	7-1-10/23	1,275,000
2005	Refunding	23,800,000	7-1-07/23	23,750,000
2005	Street Improvements	10,225,000	7-1-10/24	1,325,000
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
2012	Refunding	36,090,000	7-1-14/22	36,090,000
2013	Refunding	8,500,000	7/1/2024	8,500,000
Total Street and Highway User Revenue Bonds Outstanding				$120,795,000

(m) Excludes $21,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2003, which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2012. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
Senior Obligations:				
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
2013	Excise Tax Revenue Obligations	94,060,000	7/1/27, 7/1/32	94,060,000
Subordinate Obligations:				
2012	Phoenix-Mesa Gateway Airport Authority	19,220,000	7/1/14-38	19,220,000
Total Excise Tax Obligations Outstanding				$236,115,000

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 percent 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	$166,225,325	Total 20% General Obligation Bonding Capacity	$554,084,416
Less 6% General Obligation Bonds Outstanding	(2,740,076)	Less 20% General Obligation Bonds Outstanding	(347,489,924)
Net 6% General Obligation Bonding Capacity	$163,485,249	Net 20% General Obligation Bonding Capacity	$206,594,492

(n) General obligation bonding capacity is calculated using the City's fiscal year 2012/13 secondary assessed valuation of $2,770,422,084.

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 5 of the City's Audited General Purpose Financial Statements For The Year Ended June 30, 2012, contained in APPENDIX D of this Official Statement.

Direct and Overlapping General Obligation Bonded Debt 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	4.92 %	None
Maricopa County (q)	None	8.04	None
Maricopa Community College District (r)	$ 614,995,000	8.04	$ 49,445,598
East Valley Institute of Technology District No. 401	None	18.64	None
Mesa Unified School District No. 4	256,315,000	86.24	221,046,056
Tempe Elementary School District No. 3	114,010,000	0.45	513,045
Tempe Union High School District No. 213	85,945,000	0.22	189,079
Gilbert Unified School District No. 41	153,565,000	25.52	39,189,788
Queen Creek Unified School District No. 95	40,575,000	30.27	12,282,053
Higley Unified School District No. 60	62,580,000	1.31	819,798
City of Mesa (s)	350,230,000	100.00	350,230,000
Total Direct and Overlapping General Obligation Bonded Debt to be Outstanding			$673,715,417

Source: The various entities.

(o) Proportion applicable to the City is computed on the ratio of secondary assessed valuation as calculated for Fiscal Year 2012/13 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	195,500,000
Higley Unified School District No. 60	71,475,000
Tempe Elementary School District No. 3	37,560,000
Tempe Union High School District No. 213	29,525,000
Gilbert Unified School District No. 41	12,000,000
Queen Creek Unified School District No. 95	6,735,000
City of Mesa	99,171,000

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 certain 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 of 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 have been fixed for the entire 50-year repayment period, which commenced October l, 1993. 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 currently being levied. (See Arizona Revised Statutes, Sections 48-3715 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 $120,918,880. Does not include Stadium District Revenue Bonds outstanding in the aggregate principal amount of $34,515,000.

(e) Does not include Revenue Bonds outstanding in the aggregate principal amount of $1,240,000.

(s) Does not include the City's utility systems revenue bonds to be outstanding in the aggregate principal amount of $1,002,282,975.

Does not include the City's street and highway user revenue bonds outstanding in the aggregate principal amount of $120,795,000.

Does not include the City's excise tax obligations outstanding in the aggregate principal amount of $236,115,000. 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 $4,318,000.

Source: The various entities.

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

		As a Percentage of City's	
	Per Capita Bonded Debt Population at 444,856 (t)	2012/13 Secondary Assessed Valuation	2012/13 Estimated Full Cash Value
Direct General Obligation Bonded Debt	$ 787.29	12.64 %	1.57 %
Direct and Overlapping General Obligation Debt	1,425.24	22.89	2.84

(t) Arizona Department of Administration, Office of Employment and Population Statistics, estimate as of July 1, 2012.

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, 2012" 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 employer defined benefit plan, 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 effect of the increase in ASRS' unfunded liabilities on the City, or on the City's and its employees' future annual contribution to ASRS, are projected to increase in future years.

The City's contributions to the ASRS for Fiscal Years 2011/12 and 2010/11 were $14.56 million and $13.35 million, respectively, both of which were equal to the required contributions for the year. The contribution rate, including retirement and long-term disability, for Fiscal Year 2011/12 was 10.74 percent for the City and for member employees, and for Fiscal Year 2012/13, the rate increased to 11.14 percent for the City and for member employees. Additional increases are projected by the actuary through Fiscal Year 2017/18.

The Arizona Public Safety Personnel Retirement System ("PSPRS"), an agent multiple-employer defined benefit plan that covers public safety personnel who are regularly assigned to hazardous duties, for which the Arizona State Legislature establishes and may amend active plan members' contribution rate, has reported increases in its unfunded liabilities. The most recent annual reports for the PSPRS may be assessed at http://www.psprs.com/sys_psprs/ Annual Reports/cato_annual_rpts_psprs.htm. The effect of the increase in the PSPRS's unfunded liabilities is expected to result in increased contributions by the City and its employees, however the specific impact on the City, or on the City's and its employees' future annual contributions to the PSPRS, cannot be determined at this time.

For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 23.12 percent for fire and 23.34 percent for police, the aggregate of which is the actuarially required amount. As allowed by statute, the City contributed 23.12 percent for fire and 23.34 percent for police of the members' required contribution, with the members contributing 8.65 percent for fire and police. The health insurance premium portion of the contribution was set at 1.66 percent for fire and 1.76 percent for police of covered payroll. The health insurance premium portion of the contribution rate was actuarially set at 1.66 percent for fire and 1.76 percent for police of covered payroll.

The Elected Officials Retirement Plan (EORP) is relatively insignificant to the City's financial picture.

New Reporting Requirements

Government Accounting Standards Board adopted Statement Number 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which, beginning with fiscal years starting after June 15, 2014, requires cost-sharing employers to report their "proportionate share" of the plan's net pension liability in their government-wide financial statements. GASB 68 will also require that the cost-sharing employer's pension expense component include its proportionate share of the plan's pension expense, the net effect of annual changes in the employer's proportionate share and the annual differences between the employer's actual contributions and its proportionate share. The new reporting requirements imposed by GASB 68 will change the financial statements of the City, but what the specific effect will be is unknown at this time.

Other Post-Employment Benefits

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, 2012, approximately 1,555 former employees and beneficiaries were eligible for these benefits. Other Post Employment Benefits costs incurred by the City in Fiscal Year 2011/12 were $82.5 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 62 of the City's audited financial statements for Fiscal Year 2011/12 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, 2012:

Annual Required Contribution	$ 86,593,869
Interest on Net OPEB Obligation	11,340,980
Adjusted to Annual Required Contribution	(15,471,900)
Annual OPEB Cost	82,462,949
Contributions Made	14,328,105
Increase in Net OPEB Obligation	68,134,844
Net OPEB Obligation - Beginning of Year	252,021,769
Net OPEB Obligation - End of Year	$320,156,613

The City's net OPEB obligation as of June 30, 2012 was $320,156,613. Contributions for Fiscal Year 2011/12 were $14,328,105.

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 of Mesa ("City" or "Mesa") Energy Resources Department's Electric Utility ("Electric Utility") has been in operation since 1917. The Electric Utility electric service area ("ESA") covers approximately six square miles including the downtown business center of the City. As of the fiscal year ended June 30, 2012, the Electric Utility served a total of approximately 15,841 customers comprised of 13,359 residential and 2,454 commercial and other customers. There are no industrial customers in the ESA. During the same period, total customer sales, as billed, were approximately 321,643,452 kWh with a fiscal year summer system peak demand of approximately 83 MW and system energy requirements of 341,489,000 kWh being experienced at the Rogers Substation, the City's point of supply.

During this fiscal year, 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, 2012) 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, has 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 (1):			
• Parker-Davis Project	2028	10.5	8
• Colorado River Storage Project	2024	4.3	3.4
Constellation Energy Commodities Group, Inc. (2)	2017	15	15
Shell Energy North America, L.P. (3)	2012/13	35	10
Shell Energy North America, L.P. (4)	2013	10	0

(1) 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.

(2) Effective April 1, 2012, Mesa entered into a 5-year firm power purchase and sale agreement with Constellation Energy Commodities Group, Inc. Expiration date for this agreement is March 31, 2017.

(3) Mesa and Shell Energy North America, L.P. ("SENA") are 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.

(4) Mesa 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.

Mesa’s purchased power and energy resources are contractually transmitted over Western’s Parker-Davis and Pacific Intertie transmission systems to Western’s 500/230 kV West Wing and 230 kV Pinnacle Peak Substations and then to the 230 kV Rogers Substation, jointly owned by Salt River Project (“SRP”), Western, and Mesa. The power and energy are then transmitted to Mesa’s ESA via the Mesa owned and operated 69 kV system and then to Mesa’s 8 distribution substations and associated 4 kV and 12 kV electrical distribution facilities for ultimate distribution to its residential and commercial end-use customers. As of June 30, 2012 there were approximately 203 miles of overhead primary and approximately 240 miles of underground primary distribution lines that distribute power to the customer end-use distribution transformers. Mesa continually invests in capital improvements to meet current and future demands and to ensure a safe, reliable, and efficient electric utility system.

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 Mesa), and confirmed the Arizona Corporation Commission’s authority to set the framework for public service corporations. Under H.B. 2663, however, Mesa could “opt out” and not open its service area to competition so long as Mesa did not provide service outside its service area boundaries. In August of 1998, Mesa adopted a resolution exercising its authority to “opt out” of competition due to non-competition covenants made by Mesa in the Bond Resolution. In 2000, however, the Arizona legislature adopted Senate Bill 1056 (S.B. 1056) under which Mesa was required to open its service territory to competition beginning in January 2002. Consequently, Mesa’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* (2011/12)
Residential Electric Service = E1.1	
Monthly Bill Per Meter	
May/October	
Customer Charge	$5.71
Energy Charge**	
KWH First 1200 KWH	$0.05128 per kWh
KWH All Additional	$0.04822 per kWh
November/April	
Customer Charge	$5.71
Energy Charge**	
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**	
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**	
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

* The City may require special service agreements for consumers requiring large electric loads.

** 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 average Fiscal Year 2011/12 factor for residential was $0.06079 per kWh and the average Fiscal Year 2011/12 factor for non-residential was $0.04942 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 (2008-2012)

Date	Rate Increase
August 1, 2012	None
August 1, 2011	None
August 1, 2010	None
August 1, 2009	None
August 1, 2008	None

Source: The City Finance Department.

Schedule of Electric System Customers (Fiscal Years 2007/08 through 2011/12)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2011/12	13,359	2,289	193	15,841
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	13,518	2,472	20	16,010

Source: The City 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	2011/12 Electric System Fees/Charges
Mesa Public Schools	$ 928,610
Apache Junction Hospital LLC	396,051
Centurylink, Inc.	241,688
Pacifica Centennial, LLC	235,055
Mesa Cold Storage	209,344
Mesa Arizona Temple	185,860
Brown and Brown Chevrolet	176,259
Bashas Market - 2	156,021
Epicurean Fine Food, Inc	149,406
Circle K Stores, Inc.	146,124
Total	$2,824,418
Total As a Percent of Total 2011/12 Electric System Operating Revenue	8.09%

* The City uses Electric services and records the revenue as Interdepartmental Revenue. For Fiscal Year 2011/12, Electric revenues used by the City are $1,719,122.

Source: The City Finance Department.

Natural Gas System

The American Public Gas Association ("APGA") ranks the City Energy Resources Department's 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 certificated 236 square mile system located southeast of the City in Pinal County, Arizona. As of the fiscal year ended June 2012, the City's combined NG Utility operated approximately 1,253 miles of distribution mains and served approximately 55,829 customers comprised of 53,408 Residential and 2,421 Commercial and other customers. During this same fiscal year, total natural gas billable sales of 32,819,393 Therms were made and delivered by the NG Utility to its end-use customers.

The NG Utility's natural gas supplies and associated contracts are the results of a competitive bid process and are designed to fulfill not only existing system requirements, but anticipate system growth and peak needs of that growth. During fiscal year ended June 2012, the NG Utility's natural gas supplies and transportation service contracts were administered by Shell Energy North America, L.P. ("SENA"). SENA also provided the NG Utility's natural gas supplies. These supplies were mainly sourced from both the San Juan Basin in New Mexico and the Permian Basin in West Texas. The natural gas supplies were transported via a major pipeline system owned and operated by the El Paso Natural Gas Company ("EPNG"), under the terms and conditions of two transportation service agreements ("TSA") that were effective February 1, 2007, and amended in 2008. The TSA's provided 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 2011/12, the NG Utility system experienced a total system natural gas supply daily peak delivery of 21,013.3 DThs in December 2011. Total system natural gas supply deliveries at the NG Utility's gate stations during Fiscal Year 2010/11 were 3,336,391 DThs or 33,363,910 Therms.

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 2013 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

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

Source: The City 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 2007/08 through 2011/12)

Fiscal Year	Residential Customers	Commercial Customers	Total Customers
2011/12	53,408	2,421	55,829
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

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

Schedule of Natural Gas System Rate Increases (2008-2012)

Date	Rate Increase
August 1, 2012	0.00%
August 1, 2011	2.50%
August 1, 2010	2.50%
August 1, 2009	3.00%
August 1, 2008	3.00%

Schedule of the 10 Largest Natural Gas System Customers*

Natural Gas System Customer	2011/12 Natural Gas System Fees/Charges
Regional Public Transit Authority	$1,369,374
Banner Desert Medical Center	632,455
Empire Southwest	518,779
Mesa Public Schools	450,566
Commercial Metals Company	359,908
Banner Corporate Center	282,290
The Boeing Company	206,845
Banner Gateway Medical Center	195,349
Cal-Am Properties, Inc.	145,263
Geyser Dobson Ranch Mt., LLC	128,100
Total	$4,288,929
Total As a Percent of Total 2011/12 Natural Gas System Operating Revenue	10.91%

* The City uses Natural Gas services and records the revenue as Interdepartmental Revenue. For Fiscal Year 2011/12 Natural Gas Revenues used by the City are $182,295.

Source: The City Finance Department.

Water System

The water utility system of the City 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 is well positioned to ensure reliable delivery of quality water to meet current and future demands.

Water is provided from three general sources: the Salt and Verde River system, the Colorado River via the Central Arizona Project, and groundwater wells. The City is designated with a 100-Year Assured Water Supply by the Arizona Department of Water Resources, and has worked hard to ensure current and future availability of water supplies for normal and drought conditions. Currently, the City has legal access to approximately double the amount of water that it uses today, ensuring adequate supplies for growth. In addition, the City has stored an amount of surface water equal to approximately five times its annual demand in underground aquifers to mitigate future drought.

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 2012 was 82 mgd with a peak day of 122 mgd.

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

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

Source: City Water Resources Department. The table above reflects only certain basic fees and charges of the City's water system and is not a comprehensive statement of all such fees.

Schedule of Water System Rate Increases (2008-2012)

Date	Rate Increase
August 1, 2012	0.00%
August 1, 2011	6.80%
August 1, 2010	5.50%
August 1, 2009	3.40%
August 1, 2008	3.00%

Source: City Finance Department.

Schedule Of Water System Customers
(Fiscal Years 2007/08 through 2011/12)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Total Customers
2011/12	120,335	10,125	4,443	134,903
2010/11	119,359	10,025	4,380	133,764
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

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

Schedule of the 10 Largest Water System Customers*

Water System Customer	2011/12 Water System Fees/Charges
Mesa Public Schools	$1,819,087
The Church of Jesus Christ of Latter Day Saints	528,847
Gilbert Public Schools	476,120
Cal-Am, Inc.	450,016
ASU East Single Family Homes	431,590
Banner Desert Medical Center	341,330
Commercial Metals Company	332,205
Ralph L. Wadsworth Construction Co.	266,876
Las Sendas Community Association	243,765
Bella Via Community	241,237
Total	$5,131,073
Total as a Percent of Total 2011/12 Water System Operating Revenue	4.37%

* The City uses water services and records the revenue as Interdepartmental Revenue. For Fiscal Year 2011/12 water revenues used by the City are $3,159,459.

Source: The City Finance Department.

Wastewater System

The City's gravity wastewater collection system currently serves approximately 119,000 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. Mesa'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 Mesa owns 4 mgd. The ultimate treatment capacity of the plant is expected to reach 56 mgd with Mesa's portion expected to reach 24 mgd. The plant currently has bio-solids processing capacity of 24 mgd of which Mesa owns 12 mgd. The ultimate bio-solids capacity of the plant is expected to reach 64 mgd, of which Mesa 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 2012 was approximately 39 mgd.

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

Schedule of Current Wastewater System Fees and Charges

Description of Wastewater System Services	Fee/Charge
Residential Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$11.30
User Charge Component	2.81
+ User Charge Component (average winter water consumption)	1.26 / 1,000 gallons
+ Capital Related Component (average winter water consumption in excess of 5,000 gallons)	2.29 / 1,000 gallons
General Commercial Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$11.70
User Charge Component	2.81
+ User Charge Component (all water used)	1.26 / 1,000 gallons
+ Capital Related Component (all water used in excess of 5,000 gallons)	2.29 / 1,000 gallons
Multi-Unit Dwelling Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$11.70
User Charge	2.81
+ User Charge Component (all water used)	1.26 / 1,000 gallons
+ Capital Related Component (all water used in excess of 5,000 gallons)	2.29 / 1,000 gallons
Industrial Sewer Service - Inside City	
Monthly Bill	
Capital Component	
Flow (in excess of 5,000 gallons)	$2.234 / 1,000 gallons
BOD (in excess of lbs. contributed in first 5,000 gallons)	0.174 / pound
SS (in excess of lbs. contributed in first 5,000 gallons)	0.143 / pound
User Charge Component	
Flow	$0.656 / 1,000 gallons
BOD	0.321 / pound
SS	0.191 / pound
Minimum - Capital Component (includes use of 5,000 gallons)	11.21
User Charge Billing Component	2.81

Source: The City Water Resource Department. The table above reflects only certain basic fees and charges of the City's wastewater system and is not a comprehensive statement of all such fees.

Schedule of Wastewater System Rate Increases (2008-2012)

Date	Rate Increase
August 1, 2012	0.00%
August 1, 2011	5.80%
August 1, 2010	4.50%
August 1, 2009	6.50%
August 1, 2008	4.50%

Source: City Finance Department.

Schedule of Wastewater System Customers
(Fiscal Years 2007/08 through 2011/12)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Industrial Customers	Other Customers	Total Customers
2011/12	110,007	5,378	4,333	2	0	119,720
2010/11	107,275	4,839	4,269	2	460	116,845
2009/10	108,355	4,487	4,323	2	880	118,047
2008/09	107,209	4,476	4,283	2	865	116,835
2007/08	106,745	4,603	4,216	6	443	116,013

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

Schedule of the 10 Largest Wastewater System Customers

Wastewater System Customer	2011/12 Wastewater System Fees/Charges
Mesa Public Schools	$964,552
Town of Gilbert	514,173
Cal-Am Properties, Inc.	499,886
Freescale Semiconductor	324,330
ASU East Single Family Housing	305,221
MCCCD/Mesa Community College	267,429
IMT-LB Mesa, LLC	256,019
Banner Desert Medical Center	254,134
Wal-Mart Stores, Inc.	222,403
Standard Phoenix Fund, LLC	217,046
Total	$3,825,193
Total as a Percent of Total 2011/12 Wastewater System Operating Revenue	5.69%

* The City uses wastewater services and records the revenue as Interdepartmental Revenue. For Fiscal Year 2011/12 wastewater revenues used by the City are $406,473.

Source: City Finance Department.

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 120,409 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 2,906 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 31.5% 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
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.

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

Schedule of Solid Waste System Rate Increases (2008-2012)

Date	Rate Increase
August 1, 2012	0.00%
August 1, 2011	0.00%
August 1, 2010	0.00%
August 1, 2009	0.00%
August 1, 2008	3.00%

Source: City Finance Department.

Schedule of Solid Waste System Customers
(Fiscal Years 2007/08 through 2011/12)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2011/12	120,409	2,906	201	123,516
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

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

Schedule of the 10 Largest Solid Waste System Customers

Solid Waste System Customer	2011/12 Solid Waste System Fees/Charges
Cal-Am Properties, Inc.	$ 367,662
Mesa Public Schools	343,294
Viewpoint RV Resort, LLC	142,470
Mobile Home Communities	113,731
Casa Fiesta Tempe Ltd., Ptsp.	112,407
Norton S. Karno, APC ERT	103,892
Tesoro At Greenfield Condo Assoc.	89,668
MHC Monte Vista, LLC	78,704
Sierra Village Associates	73,464
Palmas Park Inc.	71,062
Total	$1,496,354
Total as a Percent of Total 2011/12 Solid Waste System Operating Revenue	3.13%

* The City uses solid waste services and records the revenue as Interdepartmental Revenues. For Fiscal Year 2011/12 Solid Waste revenues used by the City are $443,182.

Source: City 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.

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CITY OF MESA, ARIZONA

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 of the City.

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Presented to

City of Mesa
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2013 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 Honorable Mayor and the City Council of the
City of Mesa, Arizona

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Public Safety Personnel Retirement System Schedule of Funding Progress, the Other Post Employment Benefit Plan Schedule of Funding Progress and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and schedules and the introductory and statistical sections listed in the table of contents 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 schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 14, 2013

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, 2012. 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-IX, 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 $56 million in fiscal year 2012.
- Total net assets of the City are $1.59 billion, of which $157 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 2012, the City's governmental funds reported a combined ending fund balance of $313.5 million, a $77.8 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 $78 million, or 25% of total General Fund expenditures.
- The City issued $59 million in general obligation debt during the current fiscal year. $27.3 million was issued for new street and public safety improvement projects and $31.7 million was issued to refund prior outstanding general obligation debt.
- The City issued $36.1 million in street and highway user revenue debt during the current fiscal year to refund prior outstanding street and highway user revenue debt.
- The City issued $77.8 million in highway advancement project notes during the current fiscal year. The notes will be used to accelerate the construction of highway improvements to State Route 24 between State Route 202L and Ellsworth Road.
- The City issued $179.2 million in utility system revenue debt during the current fiscal year. $67.3 million was issued for new electric, gas, water and wastewater improvement projects and $111.9 million was issued to refund prior outstanding utility system revenue debt.

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.

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 52-57).

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 107-112).

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 32–87) 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 90.

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, 2012 and as of and for the year ended June 30, 2011.

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, 2012 and 2011.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2012	2011	2012	2011	2012	2011	Dollars	Percent
Cash and Other Assets	$ 515,096	$ 426,059	$ 483,838	$ 464,539	$ 998,934	$ 890,598	$ 108,336	12.16 %
Capital Assets	1,293,796	1,279,788	1,339,886	1,302,381	2,633,682	2,582,169	51,513	1.99
Total Assets	1,808,892	1,705,847	1,823,724	1,766,920	3,632,616	3,472,767	159,849	4.60
Non-current Liabilities,								
Outstanding	835,493	691,599	1,011,663	953,975	1,847,156	1,645,574	201,582	12.25
Other Liabilities	115,426	109,026	76,117	68,505	191,543	177,531	14,012	7.89
Total Liabilities	950,919	800,625	1,087,780	1,022,480	2,038,699	1,823,105	215,594	11.83
Net Assets:								
Invested in Capital Assets,								
Net of Related Debt	913,702	872,302	412,016	430,436	1,325,718	1,302,738	22,980	1.76
Restricted	41,257	39,296	69,739	55,873	110,996	95,169	15,827	16.63
Unrestricted	(96,986)	(6,376)	254,189	258,131	157,203	251,755	(94,552)	(37.56)
Total Net Assets	$ 857,973	$ 905,222	$ 735,944	$ 744,440	$ 1,593,917	$ 1,649,662	$ (55,745)	(3.38)

In the case of the City, the combined net assets (governmental activities and business-type activities) exceeded liabilities by $1.59 billion at the close of the most recent year.

The net assets decreased $56 million (3.4%) in fiscal year 2012. The governmental activities decreased $47 million while the business-type activities decreased $9 million.

The largest portion of net assets (83%) 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.

$111 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 $157 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, 2012 and 2011.

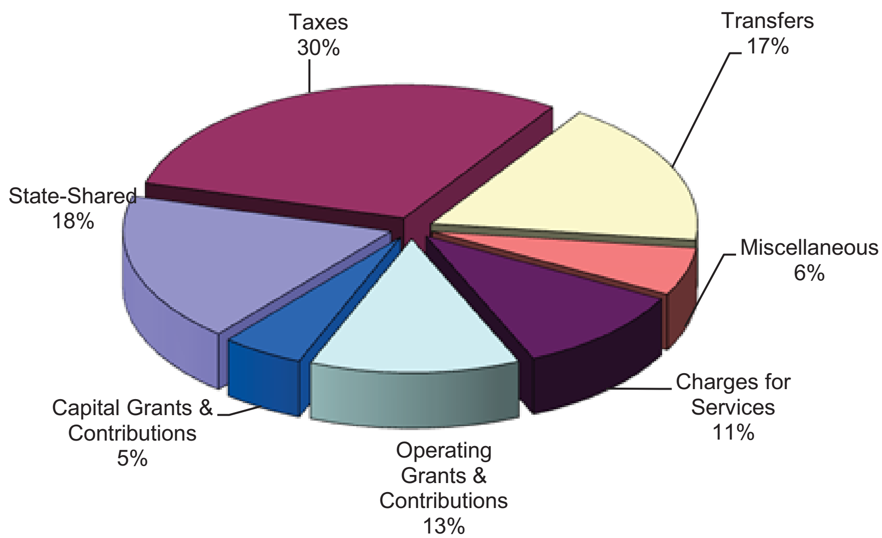
Changes in Net Assets
(In thousands of dollars)

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011	Change Dollars	Change Percent
REVENUES								
Program Revenues:								
Charges for Services	$ 50,450	$ 44,710	$ 314,908	$ 299,473	$ 365,358	$ 344,183	$ 21,175	6.15 %
Operating Grants & Contributions	60,355	65,284	2,125	25	62,480	65,309	(2,829)	(4.33)
Capital Grants & Contributions	23,503	31,461	15,814	10,774	39,317	42,235	(2,918)	(6.91)
General Revenues:								
Sales Taxes	126,644	121,046	-	-	126,644	121,046	5,598	4.62
Property Taxes	14,234	14,244	-	-	14,234	14,244	(10)	(0.07)
Occupancy Taxes	2,019	2,148	-	-	2,019	2,148	(129)	(6.01)
Unrestricted State-Shared	86,103	92,613	-	-	86,103	92,613	(6,510)	(7.03)
Contributions	17,171	15,611	-	-	17,171	15,611	1,560	9.99
Unrestricted Investment Income	1,503	617	850	839	2,353	1,456	897	61.61
Miscellaneous	8,939	7,060	-	-	8,939	7,060	1,879	26.61
Total Revenues	390,921	394,794	333,697	311,111	724,618	705,905	18,713	2.65
EXPENSES								
Governmental Activities:								
General Government	57,472	59,552	-	-	57,472	59,552	(2,080)	(3.49) %
Public Safety	287,918	273,320	-	-	287,918	273,320	14,598	5.34
Cultural-Recreational	57,171	54,549	-	-	57,171	54,549	2,622	4.81
Community Environment	97,593	106,434	-	-	97,593	106,434	(8,841)	(8.31)
Interest on Long-term Debt	21,631	21,078	-	-	21,631	21,078	553	2.62
Business-type Activities:								
Electric	-	-	29,751	26,816	29,751	26,816	2,935	10.94
Gas	-	-	34,275	36,020	34,275	36,020	(1,745)	(4.84)
Water	-	-	74,162	82,378	74,162	82,378	(8,216)	(9.97)
Wastewater	-	-	68,540	63,614	68,540	63,614	4,926	7.74
Solid Waste	-	-	32,485	31,462	32,485	31,462	1,023	3.25
Airport	-	-	3,737	3,972	3,737	3,972	(235)	(5.92)
Golf Course	-	-	2,589	2,679	2,589	2,679	(90)	(3.36)
Convention Center	-	-	3,486	3,849	3,486	3,849	(363)	(9.43)
Hohokam Stadium/Fitch Complex	-	-	8,525	8,324	8,525	8,324	201	2.41
Cubs Stadium	-	-	54	15	54	-	54	100.00
District Cooling	-	-	974	965	974	965	9	0.93
Total Expenses	521,785	514,933	258,578	260,094	780,363	775,012	5,351	0.69
Increase (decrease) in Net Assets Before Transfers	(130,864)	(120,139)	75,119	51,017	(55,745)	(69,107)	13,362	(19.34)
Transfers	83,615	83,333	(83,615)	(83,333)	-	-	-	0.00
Change in Net Assets	(47,249)	(36,806)	(8,496)	(32,316)	(55,745)	(69,107)	13,362	(19.34)
Net Assets-Beginning, as Restated	905,222	942,028	744,440	776,756	1,649,662	1,718,784	(69,122)	(4.02)
Net Assets-Ending	$ 857,973	$ 905,222	$ 735,944	$ 744,440	$ 1,593,917	$ 1,649,662	$ (55,745)	(3.38)

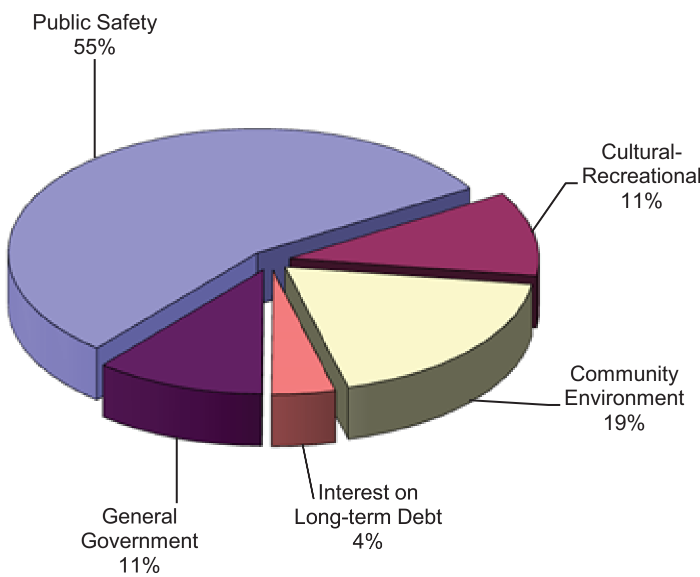
Governmental Activities

As presented in the following two graphs, the largest funding sources, including transfers, for the governmental activities are taxes (30%) and state-shared revenues (18%). The largest users of resources for the governmental activities are Public Safety (55%), Community Environment (19%), General Government (11%), and Cultural-Recreational (11%).

Revenues by Source Including Transfers – Governmental Activities
For the Fiscal Year Ended June 30, 2012

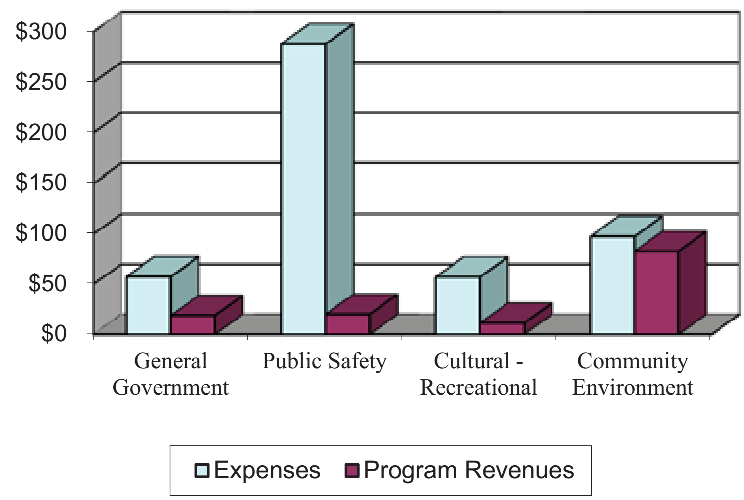


Functional Expenses – Governmental Activities
For the Fiscal Year Ended June 30, 2012



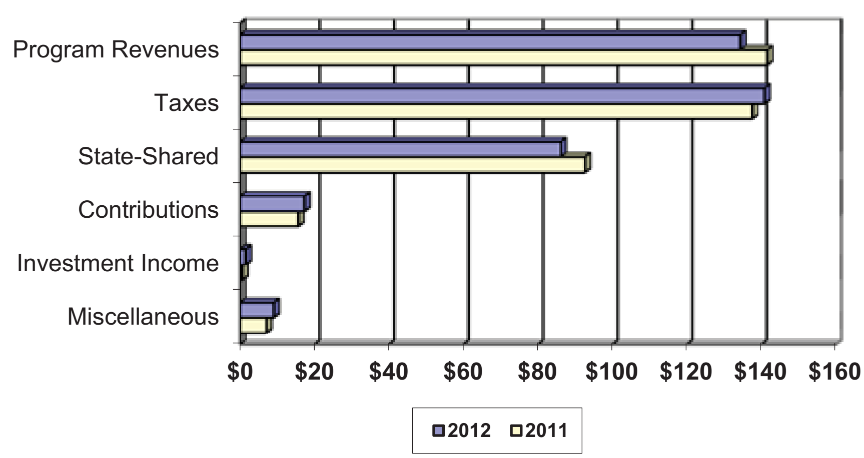
The following graph shows the functional revenues and expenses of the governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this is not intended to represent the full cost allocation to these functions. General revenues of the City, including an $83.6 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, 2012
(In millions of dollars)



Governmental activities decreased the net assets of the City by $47 million accounting for a 5.2% decrease. Governmental activities accounted for 54% of the total revenues and 67% of the total expenses of the City in fiscal year 2012. This compares to 56% of total revenues and 66% of the total expenses in fiscal year 2011.

Governmental Activities Revenues
For Fiscal Years 2012 and 2011
(In millions of dollars)



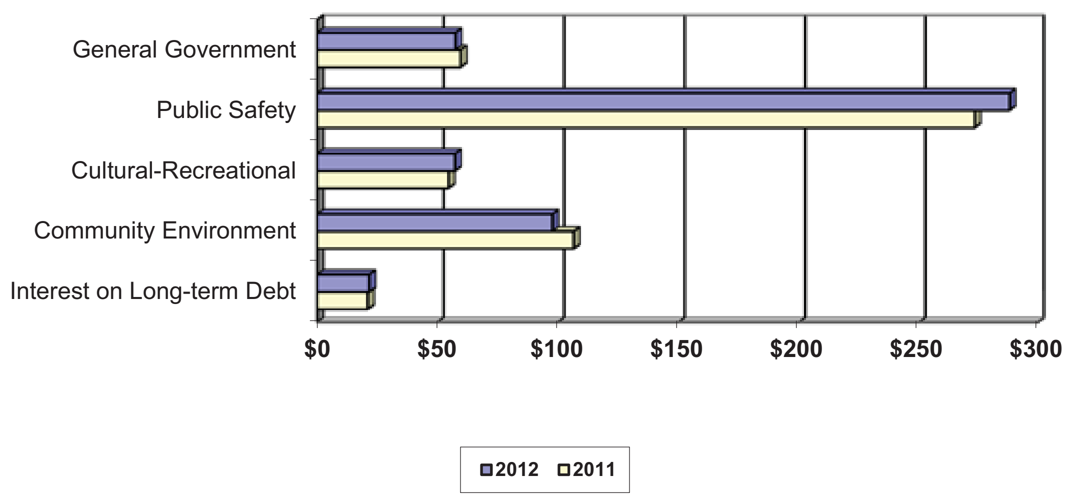
The graph above compares governmental activities revenues from fiscal year 2012 to fiscal year 2011. Total governmental activities revenues decreased $3.9 million from $394.8 million to $390.9 million. This is the fifth consecutive year that governmental activities revenues declined. Key factors in this change include:

- The program revenues (charges for services, grants and contributions that are clearly identifiable to an operating activity) of the governmental activities decreased $7.1 million over the previous year. Charges for services increased $5.7 million from the previous year. There was a $13 million decrease in the amount of capital contributions of streets, storm sewers and retention basins by developers over the previous year. Operating grants and contributions decreased by $4.9 million over the previous year due to decreased local government and federal government funding.

- Sales taxes increased by $5.6 million over the previous year reflecting an overall improvement in the local economy.

- State shared revenues decreased by $6.5 million over the previous year because of reduced revenues received from the state. State shared revenue are formula driven based on collections in prior years.

Governmental Activities Functional Expenses
For Fiscal Years 2012 and 2011
(In millions of dollars)



The graph above compares governmental activities expenses from fiscal year 2012 to fiscal year 2011. Total governmental expenses increased by $6.9 million from $514.9 million to $521.8 million. Key factors in this change include:

- There was an overall increase in expenses caused by higher payments for pension-related expenses and the expensing of Post-Employment Benefits to the governmental activities.

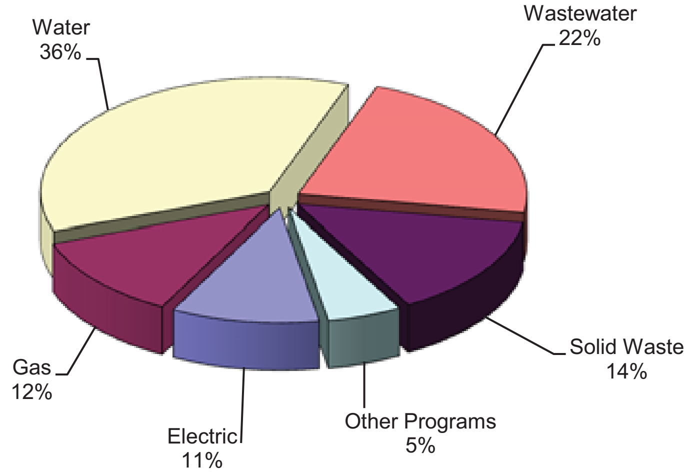
- Public Safety expenses also increased as result of additional personnel added to staff two new fire stations.

- Community Environment expenses decreased due to lower Community Development Block Grant expenses and the completion of Phase I of the light rail project.

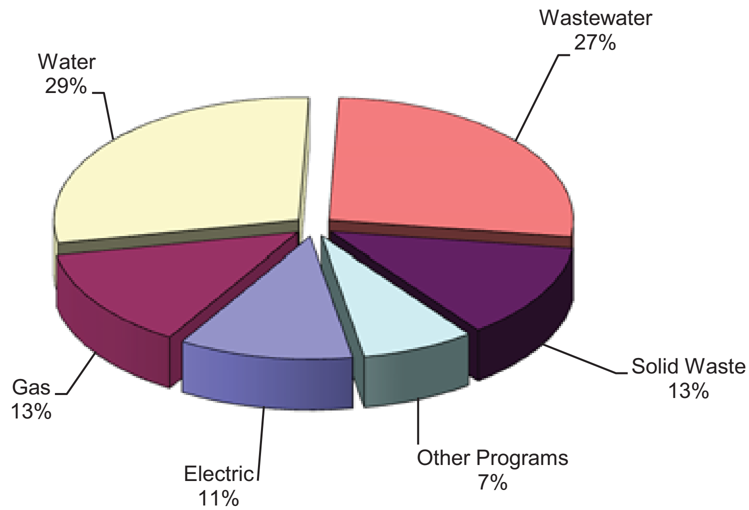
Business-type Activities

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

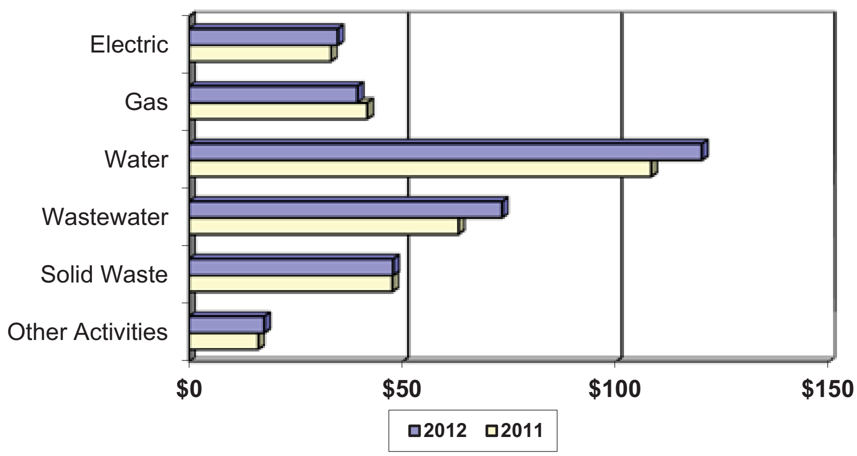


Functional Expenses – Business-type Activities



Business-type activities decreased the City's net assets by $9 million. Total business-type activities program and general revenues increased by $22.6 million (7.3%) from $311.1 million to $333.7 million, while the business-type activities total expenses decreased by $1.5 million from $260.1 million to $258.6 million. Business-type activities accounted for 46% of the total revenues and 33% of the total expenses of the City in fiscal year 2012. This compares to 44% of total revenues and 34% of the expenses in fiscal year 2011.

Business-type Activities
Program Revenues
For Fiscal Years 2012 and 2011
(In millions of dollars)

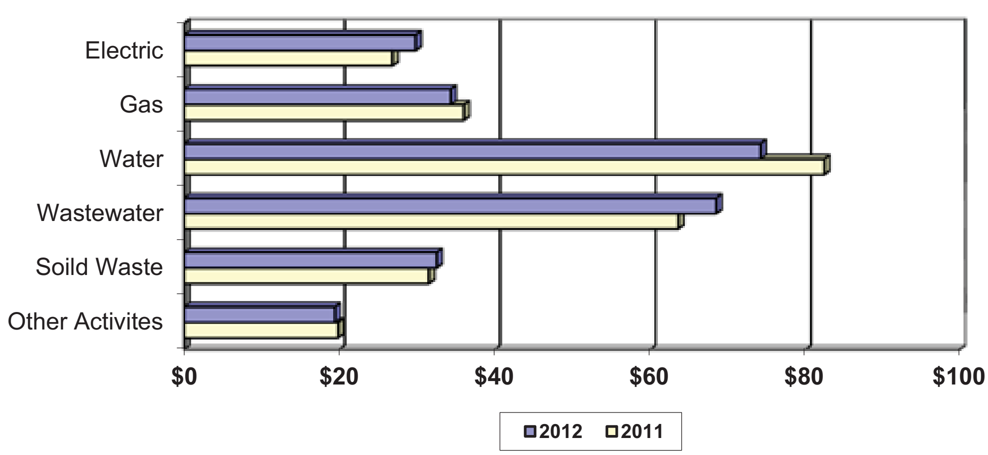


The graph above compares program revenues for the Business-type Activities from fiscal year 2012 to fiscal year 2011. Total business-type activities program revenues increased by $22.6 million (7.3%) from $311.1 million to $333.7 million. Key factors in this change include:

- Capital contributions increased by $4.7 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 $15.4 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 2012 and 2011



The graph above compares functional expenses for the Business-type Activities from fiscal year 2012 to fiscal year 2011. Total business-type functional expenses decreased by $1.5 million (0.5%) from $260.1 million to $258.6 million.

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 $313.5 million, a $77.7 million increase from the previous year. $78 million of this total amount is in unassigned fund balance, available for spending in the coming year. The remainder of fund balance includes $213.3 million in restricted fund balance, $21.4 million in committed fund balance and $.8 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 $85.8 million, while unassigned fund balance was $78 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 2012, unassigned fund balance represents 25.5% of total General Fund expenditures of $307 million, while total fund balance represents 28% of the same amount. 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 $15 million during the current fiscal year from $101 to $86 million. Total revenues of $233 million were $23 million less than the previous year, however approximately $18 million of this difference is due to the reclassification of the Quality of Life Sales Tax fund from the General Fund to the Special Revenue funds. State-shared revenue reported in the General Fund was $5.8 million less than the prior fiscal year.

Total expenditures of $307 million were $12 million less than the previous year, however approximately $18 million of expenditures in the Quality of Life Sales Tax fund were reclassified from the General Fund to the Special Revenue Funds. Capital outlay expenditures decreased $1.31 million from the prior fiscal year.

The transfer in of $84.1 million, mostly from the Enterprise Fund, was reduced by $25.5 million in transfers out to other funds, compared with a transfer in from the prior year of $83.6 million that was reduced by $26.9 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 $4.4 million less in state shared revenue and had a decrease of $6.7 million in street-related expenditures.

The Highway Project Advancement Notes Fund accumulates monies for the payment of principal and interest requirements for the Highway Project Advancement Notes. The City issued an additional $77.8 million in notes to accelerate the construction of State Route 24. Debt service on the notes increased to $4.3 million from $1.6 million in the previous fiscal year.

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 an increase of $5.5 million in capital expenditures. These expenditures were for improvements in law enforcement, fire, storm sewers, streets and other city facilities.

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 total net assets of the Enterprise Fund decreased by $7.8 million in fiscal year 2012 from $747.2 million in fiscal year 2011 to $739.4 million. The unrestricted net assets of the Enterprise Fund amounted to $257.6 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 90-92. 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 114-140.

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 $1.148 billion occurred during fiscal year 2012. Contingency allocations were made at fiscal year-end to cover programs in the General Fund of $3.6 million.

General Fund revenues of $245 million, on a budgetary basis, were less than budgeted revenues of $253.5 million by $8.5 million while expenditures of $335.9 million were only 84% of budgeted expenditures. The shortfall in revenues is due to primarily to lower revenue received in state-shared taxes. 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 continuing hiring freeze, reduced debt service expenditures caused by refinancing existing debt 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 $2.63 billion (net of accumulated depreciation/amortization) as of June 30, 2012. 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, 2012 and 2011.

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

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011	Change Dollars	Change Percent
Land	$ 285,322	$ 265,803	$ 58,980	$ 58,803	$ 344,302	$ 324,606	$ 19,696	6.07 %
Water Rights	-	-	17,560	12,761	17,560	12,761	4,799	37.61
Buildings	210,528	232,855	30,787	36,530	241,315	269,385	(28,070)	(10.42)
Other Improvements	20,972	147,205	56,013	133,904	76,985	281,109	(204,124)	(72.61)
Machinery & Equipment	49,190	44,884	23,199	128,512	72,389	173,396	(101,007)	(58.25)
Intangibles	147	14	2,350	3,920	2,497	3,934	(1,437)	(36.53)
Infrastructure	541,792	499,485	994,982	814,481	1,536,774	1,313,966	222,808	16.96
Construction-in-Progress	185,845	89,542	156,015	113,470	341,860	203,012	138,848	68.39
Total	$ 1,293,796	$ 1,279,788	$ 1,339,886	$ 1,302,381	$ 2,633,682	$ 2,582,169	$ 51,513	1.99

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

- The City continued the implementation of an Enterprise Resource Planning (ERP) system with an additional $10.9 million spent during fiscal year 2012. The ERP system will replace the current Human Resources/Payroll and Financial applications in the City. The $24.7 million project is scheduled for final implementation in 2013.

- The City began construction of a new Spring Training Facility for the Chicago Cubs Major League Baseball team with $2.4 million spent during fiscal year 2012. The City's cost to design and construct the stadium and related facilities is limited to $84 million, with an additional cost to design and construct public infrastructure limited to $15 million. These limits were established by a voter-approved election.

- The City completed construction on two new fire stations at a total cost of $3.73 million. Station 219 and Station 220 will meet the growing demands and help reduce response times for emergencies.

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

Debt Administration - At the end of the current fiscal year, the City had total bonded debt outstanding of $1.33 billion. Of this amount, $287.3 million comprises debt backed by the full faith and credit of the City and $1.046 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 $1.462 billion at June 30, 2012. $532 million of this total was in governmental activities and $930 million was in business-type activities. The City's outstanding long-term debt (considering new borrowings, debt retirements and refunding) increased $116 million. New borrowings during the fiscal year included $27.3 million in general obligation bonds, $77.8 million in Highway Advancement Project Notes and $67.3 million in utility system revenue bonds.

The following schedule shows the outstanding long-term debt of the City as of June 30, 2012 and 2011.

Outstanding Long-term Debt

(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Change	
	2012	2011	2012	2011	2012	2011	Dollars	Percent
General Obligation Bonds	$ 285,706	$ 279,028	$ 1,596	$ 2,210	$ 287,302	$ 281,238	$ 6,064	2.16 %
Utility System Revenue Bonds	-	-	928,226	884,995	928,226	884,995	43,231	4.88
Highway User Revenue Fund Bonds	118,248	126,573	-	-	118,248	126,573	(8,325)	(6.58)
Special Assessment Bonds with Governmental Commitment	5,062	5,806	-	-	5,062	5,806	(744)	(12.81)
Capital Leases	822	2,166	-	-	822	2,166	(1,344)	(62.05)
Notes Payable	122,835	45,000	2,493	2,731	125,328	47,731	77,597	162.57
Total	$ 532,673	$ 458,573	$ 932,315	$ 889,936	$ 1,464,988	$ 1,348,509	$ 116,479	8.64

During the current fiscal year, the City refinanced $179.7 million of its existing debt to take advantage of favorable interest rates and to restructure debt service payments. The new refinancing include: (all amounts shown in millions of dollars).

Debt Issued	**Debt Refunded**	**Debt Service Savings/Restructuring**
$31.7 General Obligation Bonds	$31.7 General Obligation Bonds	$2.2
$36.1 Highway User Revenue Bonds	$39.9 Highway User Revenue Bonds	$3.4
$31.6 Utility System Revenue Bonds	$35.2 Utility System Revenue Bonds	$3.5
$80.3 Taxable Utility System Revenue Bonds	$68.8 Utility System Revenue Bonds	($63.2)

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	A2
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, 2012 is:

6% Bonds	$164,855,287
20% Bonds	265,184,455
Total Available	$430,039,742

Additional information on the City's long-term obligations can be found in Note 5 and Note 6 of the notes to the basic financial statements.

Economic Factors

In June 2012, the City Council approved a $1.264 billion budget, which is approximately a 10% increase from the prior year's budget. The fiscal year 2012–13 budget includes $1.005 billion for operations and $259 million for scheduled bond capital improvements.

The adopted fiscal year 2012-13 budget continues the City's fiscally conservative approach to budget development, while still providing quality services to the citizens. Rather than simply surviving budget reductions, the City has reorganized and retooled to focus on community priorities and innovative approaches. The goal has been to help Mesa grow and prosper despite a challenging national, state and local economy.

While Mesa has seen an overall improvement in the revenue collections over the previous year, it is anticipated that this improvement will continue at a modest rate. This improvement allowed the City to address several budget priorities in the coming year. Additional positions were added in the Police and Fire & Medical Services departments. Council approved the restoration of a 2% pay reduction that was implemented in 2009 and included a one-time step increase for eligible employees.

The City also took advantage of a strategic financial opportunity in the market by refinancing large portions of outstanding debt which will result in significant savings for the City over the repayment period. The largest portion of the refinancing occurred in the Enterprise Fund. The Council approved reinvesting the savings by creating the Economic Investment Fund. The Economic Investment Fund will assist the City's efforts to provide facilities and programs that will create long-term economic benefit to the City.

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 Finance Director, P.O. Box 1466, Mesa, Arizona, 85211-1466.

CITY OF MESA, ARIZONA

EXHIBIT A-1

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Pooled Cash and Investments	$ 216,575,101	$ 64,953,804	$ 281,528,905
Receivables:			
Accounts and Miscellaneous (Net of Allowances)	19,546,817	30,171,409	49,718,226
Accrued Interest	548,812	106,880	655,692
Due From Other Governments	36,902,404	3,370,821	40,273,225
Internal Balances	3,457,400	(3,457,400)	-
Inventory	6,061,888	-	6,061,888
Prepaid Costs	1,494,916	260,576	1,755,492
Deposits	288,550	7,010,289	7,298,839
Restricted Assets:			
Pooled Cash and Investments	160,510	89,469,582	89,630,092
Cash With Fiscal Agent	32,712,490	42,940,063	75,652,553
Cash With Trustee	98,674,150	-	98,674,150
Accounts Receivable	9,381,469	-	9,381,469
Due From Other Governments	32,669,789	-	32,669,789
Customer Deposits	-	3,004,468	3,004,468
Unamortized Bond Issue Costs	2,940,257	4,492,433	7,432,690
Investment in Joint Ventures	53,681,635	241,515,386	295,197,021
Capital Assets:			
Non-Depreciable	471,166,606	232,555,150	703,721,756
Depreciable, Net	822,629,864	1,107,331,117	1,929,960,981
Total Assets	1,808,892,658	1,823,724,578	3,632,617,236
LIABILITIES			
Warrants Outstanding	8,397,178	-	8,397,178
Accounts Payable	15,086,198	5,936,339	21,022,537
Other Accrued Expenses	37,334,965	-	37,334,965
Customer and Defendant Deposits	8,870,812	-	8,870,812
Compensated Absences	1,187,019	-	1,187,019
Liabilities Payable From Restricted Assets	44,549,965	70,180,409	114,730,374
Noncurrent Liabilities:			
Due Within One Year	36,386,179	23,463,146	59,849,325
Due in More Than One Year	799,107,312	988,200,505	1,787,307,817
Total Liabilities	950,919,628	1,087,780,399	2,038,700,027
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	913,701,563	412,016,435	1,325,717,998
Restricted For:			
Convention Center	-	294,487	294,487
Airport	-	6,337,063	6,337,063
Golf Courses	-	19,371	19,371
Hohokam/Fitch Complex	-	460,963	460,963
Court Projects	1,572,632	-	1,572,632
Quality of Life Projects	3,582,240	-	3,582,240
Debt Service	1,074	43,171,834	43,172,908
Bond Indentures	-	19,247,144	19,247,144
Grant Programs	1,804,282	-	1,804,282
Transportation Programs	33,882,622	-	33,882,622
Water, Wastewater & Solid Waste Improvements	-	207,941	207,941
Miscellaneous Programs	414,368	-	414,368
Unrestricted	(96,985,751)	254,188,941	157,203,190
Total Net Assets	$ 857,973,030	$ 735,944,179	$ 1,593,917,209

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, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	$ 57,472,328	$ 16,466,194	$ 2,399,494	$ -
Public Safety	287,918,202	11,273,414	8,749,742	-
Cultural-Recreational	57,170,754	9,947,522	1,397,966	-
Community Environment	97,592,690	12,763,243	47,807,372	23,502,772
Interest on Long-Term Debt	21,631,042	-	-	-
Total Government Activities	521,785,016	50,450,373	60,354,574	23,502,772
Business-type Activities:				
Electric	29,751,312	34,624,920	157,772	-
Gas	34,275,119	39,139,278	233,614	12,002
Water	74,161,665	113,417,881	1,209,373	5,474,768
Wastewater	68,540,140	64,543,503	524,742	8,186,440
Solid Waste	32,485,233	47,630,828	-	135,876
Airport	3,737,409	3,270,632	-	1,655,194
Golf Course	2,588,958	2,168,575	-	50,000
Convention Center	3,486,069	2,122,304	-	200,000
HohokamStadium/Fitch Complex	8,525,374	6,073,590	-	100,000
Cubs Stadium	53,747	824,556	-	-
District Cooling	973,595	1,091,665	-	-
Total Business-type Activities	258,578,621	314,907,732	2,125,501	15,814,280
Total Primary Government	$ 780,363,637	$ 365,358,105	$ 62,480,075	$ 39,317,052

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

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
$ (38,606,640)	$ -	$ (38,606,640)
(267,895,046)	-	(267,895,046)
(45,825,266)	-	(45,825,266)
(13,519,303)	-	(13,519,303)
(21,631,042)	-	(21,631,042)
(387,477,297)	-	(387,477,297)
-	5,031,380	5,031,380
-	5,109,775	5,109,775
-	45,940,357	45,940,357
-	4,714,545	4,714,545
-	15,281,471	15,281,471
-	1,188,417	1,188,417
-	(370,383)	(370,383)
-	(1,163,765)	(1,163,765)
-	(2,351,784)	(2,351,784)
-	770,809	770,809
-	118,070	118,070
-	74,268,892	74,268,892
$ (387,477,297)	$ 74,268,892	$ (313,208,405)
126,644,151	-	126,644,151
14,234,285	-	14,234,285
2,018,764	-	2,018,764
86,103,399	-	86,103,399
17,170,502	-	17,170,502
1,502,659	850,454	2,353,113
8,939,334	-	8,939,334
83,615,000	(83,615,000)	-
340,228,094	(82,764,546)	257,463,548
(47,249,203)	(8,495,654)	(55,744,857)
905,222,233	744,439,833	1,649,662,066
$ 857,973,030	$ 735,944,179	$ 1,593,917,209

CITY OF MESA, ARIZONA

EXHIBIT A-3

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	General Fund	Highway User Revenue Fund	Highway Project Advancement Notes	Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Pooled Cash and Investments	$ 71,094,974	$ 132	$ -	$ 94,054,219	$ 165,149,325
Accounts Receivable (Net of Allowances)	12,639,036	36,063	-	5,428,978	18,104,077
Accrued Interest Receivable	548,812	-	-	-	548,812
Due From Other Governments	15,526,871	2,673,491	-	18,658,892	36,859,254
Due From Other Funds	8,096,813	-	-	-	8,096,813
Prepaid Costs	753,701	1,212	-	82,290	837,203
Deposits	288,550	-	-	-	288,550
Restricted Assets:					
Pooled Cash and Investments	-	-	-	160,510	160,510
Cash With Fiscal agent	-	-	756,250	31,956,240	32,712,490
Cash With Trustee	-	-	98,638,950	35,200	98,674,150
Accounts Receivable	4,879,002	-	-	4,502,467	9,381,469
Due From Other Governments	-	-	32,093,761	576,028	32,669,789
Total Assets	$ 113,827,759	$ 2,710,898	$ 131,488,961	$ 155,454,824	$ 403,482,442
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants Outstanding	$ 8,397,178	$ -	$ -	$ -	$ 8,397,178
Accounts Payable	8,782,336	102,573	-	5,102,503	13,987,412
Due To Other Funds	-	2,608,000	-	5,488,813	8,096,813
Customer and Defendant Deposits	2,967,002	50	-	5,903,760	8,870,812
Compensated Absences	1,187,019	-	-	-	1,187,019
Payable From Restricted Assets:					
Accrued Bond Interest Payable	-	-	-	8,690,566	8,690,566
Accrued Note Interest Payable	-	-	3,556,148	-	3,556,148
Deferred Revenue	6,702,097	-	-	7,055,115	13,757,212
Matured General Obligation Bonds Payable	-	-	-	20,135,109	20,135,109
Matured Highway User Revenue Bonds Payable	-	-	-	3,290,000	3,290,000
Total Liabilities	28,035,632	2,710,623	3,556,148	55,665,866	89,968,269
Fund Balances					
Nonspendable	753,701	1,212	-	82,290	837,203
Restricted	2,011,527	-	127,932,813	83,346,190	213,290,530
Committed	4,992,039	-	-	16,360,478	21,352,517
Unassigned	78,034,860	(937)	-	-	78,033,923
Total Fund Balances	85,792,127	275	127,932,813	99,788,958	313,514,173
Total Liabilities and Fund Balances	$ 113,827,759	$ 2,710,898	$ 131,488,961	$ 155,454,824	$ 403,482,442

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, 2012

Fund Balances - total governmental funds	$	313,514,173
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.		1,290,416,799
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		56,621,892
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(828,506,522)
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.		4,879,070
Internal service funds are used by management to charge the costs of certain activites to individual funds.		21,047,618
Net assets of the governmental activities - statement of net assets	$	857,973,030

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, 2012

	General Fund	Highway User Revenue Fund	Highway Project Advancement Notes	Non-major Governmental Funds	Total Governmental Funds
Revenues:					
Sales Taxes	$ 86,576,717	$ -	$ -	$ 40,067,434	$ 126,644,151
Property Taxes	-	-	-	14,322,925	14,322,925
Occupancy Taxes	2,018,764	-	-	-	2,018,764
Special Assessments	-	-	-	995,897	995,897
Licenses and Permits	10,984,707	-	-	2,374,152	13,358,859
Intergovernmental	106,477,848	27,444,747	1,477,300	33,033,537	168,433,432
Charges For Services	8,931,869	143,667	-	16,703,676	25,779,212
Fines and Forfeitures	10,144,455	226,101	-	923,509	11,294,065
Investment Income	767,495	59	40,469	475,858	1,283,881
Miscellaneous	6,655,768	10,570	-	906,163	7,572,501
Total Revenues	232,557,623	27,825,144	1,517,769	109,803,151	371,703,687
Expenditures:					
Current:					
General Government	41,083,321	-	-	-	41,083,321
Public Safety	210,636,675	-	-	15,792,186	226,428,861
Cultural-Recreational	32,014,119	-	-	11,889,515	43,903,634
Community Environment	7,159,619	18,866,348	-	38,377,792	64,403,759
Debt Service:					
Principal Retirement	-	-	-	25,513,155	25,513,155
Interest on Bonds	-	-	-	18,244,535	18,244,535
Interest on Leases	-	-	-	86,367	86,367
Interest on Notes	-	-	4,312,398	-	4,312,398
Service Charges	-	-	-	7,864	7,864
Cost of Issuance	-	-	400,470	469,412	869,882
Capital Outlay	15,640,055	105,969	-	51,204,608	66,950,632
Total Expenditures	306,533,789	18,972,317	4,712,868	161,585,434	491,804,408
Excess (Deficiency) of Revenues Over (Under) Expenditures	(73,976,166)	8,852,827	(3,195,099)	(51,782,283)	(120,100,721)
Other Financing Sources (Uses):					
Transfers In	84,096,031	3,513	-	37,359,939	121,459,483
Transfers Out	(25,496,798)	(8,856,848)	-	(3,781,937)	(38,135,583)
Face Amount of Bonds Issued	-	-		27,290,000	27,290,000
Face Amount of Notes Issued	-	-	77,835,000	-	77,835,000
Premium on Issuance of Bonds	-	-	-	8,027,060	8,027,060
Premium on Issuance of Notes	-	-	8,250,081	-	8,250,081
Issuance of Refunding Debt	-	-	-	67,238,160	67,238,160
Payment to Refunded Bond Escrow Agent	-	-	-	(74,127,409)	(74,127,409)
Total Other Financing Sources (Uses)	58,599,233	(8,853,335)	86,085,081	62,005,813	197,836,792
Net Change in Fund Balances	(15,376,933)	(508)	82,889,982	10,223,530	77,736,071
Fund Balances - Beginning	101,169,060	783	45,042,831	89,565,428	235,778,102
Fund Balances - Ending	$ 85,792,127	$ 275	$ 127,932,813	$ 99,788,958	$ 313,514,173

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, 2012

Net change in fund balances - total governmental funds	$	77,736,071
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.		(841,496)
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.		(54,676,265)
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 ($66,950,632) exceeded depreciation ($48,629,704) in the current period.		18,320,928
The net effect of miscellaneous transactions involving capital assets (e.g., donations, transfers and disposals) is to decrease net assets.		(1,816,396)
Loss on equity in Joint Venture		(2,006,011)
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.		(80,353,418)
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.		(7,133,166)
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.		3,520,550
Change in net assets of the governmental activities - statement of activities	$	(47,249,203)

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, 2012

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
ASSETS		
Current Assets:		
Pooled Cash and Investments	$ 64,953,804	$ 51,425,776
Accounts Receivable (Net of Allowances of $1,190,000)	30,171,409	163,572
Accrued Premiums Receivable	-	1,279,168
Accrued Interest Receivable	106,880	-
Due From Other Governments	3,370,821	43,150
Inventory	-	6,061,888
Prepaid Costs	260,576	657,713
Deposits	7,010,289	-
Restricted Assets:		
Pooled Cash and Investments	20,254,711	-
Cash with Fiscal Agent	42,940,063	-
Customer Deposits	3,004,468	-
Total Current Assets	172,073,021	59,631,267
Noncurrent Assets:		
Restricted Assets:		
Impact & Development Fees:		
Pooled Cash and Investments	207,941	-
Bond Replacement, Extensions and Reserves:		
Pooled Cash and Investments	19,638,550	-
Capital Projects:		
Pooled Cash and Investments	49,368,380	-
Unamortized Bond Issue Costs	4,492,433	-
Total Restricted Assets	73,707,304	-
Capital Assets:		
Land	58,980,182	-
Water Rights	17,560,145	-
Buildings	52,013,687	2,061,431
Other Improvements	62,112,156	426,745
Machinery and Equipment	51,689,945	6,506,851
Intangibles	17,322,447	2,758
Infrastructure	1,519,648,775	1,042
Construction in Progress	156,014,823	144,538
Less Accumulated Depreciation and Amortization	(595,455,893)	(5,763,694)
Total Capital Assets, Net	1,339,886,267	3,379,671
Investment in Joint Ventures	241,515,386	-
Total Noncurrent Assets	1,655,108,957	3,379,671
Total Assets	$ 1,827,181,978	$ 63,010,938

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, 2012

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
LIABILITIES		
Current Liabilities-Payable From Current Assets:		
Accounts Payable	$ 5,936,339	$ 1,098,786
Other Accrued Expenses	-	37,334,965
Current Liabilities-Payable From Restricted Assets:		
Bond Replacement, Extensions and Reserves-Accounts Payable	391,406	-
Capital Projects-Accounts Payable	3,589,761	-
Accrued Bond Interest Payable	21,186,983	-
Matured Bonds Payable	21,984,891	-
Customer Deposits and Prepayments	23,027,368	-
Current Portion of Long-Term Liabilities:		
Current Portion of Revenue Bonds Payable	21,630,000	-
Current Portion of General Obligation Bonds Payable	712,959	-
Current Portion of Notes Payable	122,973	-
Current Portion of Other Long-Term Obligations	116,754	-
Current Portion of Compensated Absences	880,460	87,848
Total Current Liabilities	99,579,894	38,521,599
Long-Term Liabilities:		
Revenue Bonds Payable, Net of Deferred Amount on Refundings	906,595,968	-
General Obligation Bonds Payable, Net of Deferred Amt on Refundings	883,167	-
Notes Payable	2,370,002	-
Unamortized Bond Premium	19,238,432	-
Compensated Absences	3,301,802	831,628
Post Employment Benefits	55,811,134	6,067,493
Total Long-Term Liabilities	988,200,505	6,899,121
Total Liabilities	1,087,780,399	45,420,720
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	412,016,435	3,379,671
Restricted For:		
Convention Center	294,487	-
Airport	6,337,063	-
Golf Courses	19,371	-
Hohokam Stadium\Fitch Complex	460,963	-
Debt Service	43,171,834	-
Bond Indentures	19,247,144	-
Water, Wastewater & Solid Waste Improvements	207,941	-
Unrestricted	257,646,341	14,210,547
Total Net Assets	$ 739,401,579	$ 17,590,218
Adjustment to reflect the consolidation of the internal service funds related to the enterprise fund.	(3,457,400)	
Total net assets of the business-type activities	$ 735,944,179	

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, 2012

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Operating Revenues:		
Electric Sales Pledged as Security for Revenue Bonds	$ 34,624,920	$ -
Gas Sales Pledged as Security for Revenue Bonds	39,139,278	-
Water Sales Pledged as Security for Revenue Bonds	113,417,881	-
Wastewater Charges Pledged as Security for Revenue Bonds	64,543,503	-
Solid Waste Charges Pledged as Security for Revenue Bonds	47,630,828	-
Airport Fees	3,270,632	-
Golf Course Fees	2,168,575	-
Convention Center Fees	2,122,304	-
Hohokam Stadium/Fitch Complex Fees	6,073,590	-
Cubs Stadium	824,556	-
District Cooling Charges	1,091,665	-
Charges For Services	-	19,062,105
Self-Insurance Contributions	-	71,376,544
Other	-	1,352,879
Total Operating Revenues	314,907,732	91,791,528
Operating Expenses:		
Electric	23,559,483	-
Gas	27,579,988	-
Water	32,492,891	-
Wastewater	24,511,236	-
Solid Waste	28,946,276	-
Airport	2,448,040	-
Golf Course	2,295,242	-
Convention Center	3,207,565	-
Hohokam Stadium/Fitch Complex	7,817,116	-
Cubs Stadium	53,748	-
District Cooling	582,915	-
Warehouse, Maintenance & Services	-	20,292,608
Self-Insurance	-	68,791,390
Total Operating Expenses	153,494,500	89,083,998
Operating Income Before Depreciation and Amortization	161,413,232	2,707,530
Depreciation and Amortization	(46,099,910)	(340,110)
Operating Income	115,313,322	2,367,420

(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, 2012

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Nonoperating Revenues (Expenses):		
Investment Income Pledged as Security for Revenue Bonds	838,981	-
Investment Income Unpledged	11,473	237,016
Intergovernmental	2,125,501	-
Interest Expense:		
Revenue Bonds	(39,910,089)	-
General Obligation Bonds	(94,432)	-
Notes Payable	(69,067)	-
Other Long-Term Obligations	(14,489)	-
Amortization of Bond Issuance and Administrative Costs	(323,330)	-
Loss on Disposal of Capital Assets	(5,243,965)	(36,970)
Equity Interest in Joint Ventures	(12,665,274)	-
Total Nonoperating Revenues (Expenses)	(55,344,691)	200,046
Income before Transfers and Capital Contributions	59,968,631	2,567,466
Capital Contributions	15,814,280	(1,581)
Transfers In	-	291,100
Transfers Out	(83,615,000)	-
Change in Net Assets	(7,832,089)	2,856,985
Total Net Assets - Beginning	747,233,668	14,733,233
Total Net Assets - Ending	$ 739,401,579	$ 17,590,218
Adjustment to reflect consolidation of internal service funds related to the enterprise fund.	(663,565)	
Change in net assets of the business-type activities	$ (8,495,654)	

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, 2012

	Business-type Activities	**Governmental Activities**
	Enterprise Fund	**Internal Service Funds**
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 303,277,355	$ -
Cash Received From Users	6,701,104	91,876,952
Cash Payments to Suppliers	(88,767,867)	(73,453,516)
Cash Payments to Employees	(52,975,183)	(7,484,233)
Net Cash Provided By Operating Activities	168,235,409	10,939,203
Cash Flows From Noncapital Financing Activities:		
Intergovernmental	2,125,501	-
Investment in Joint Ventures	(3,623,842)	-
Transfers In from Other Funds	-	291,100
Transfers Out to Other Funds	(83,615,000)	-
Net Cash Provided By (Used For) Noncapital Financing Activities	(85,113,341)	291,100
Cash Flows From Capital and Related Financing Activities:		
Proceeds From Bond Sales	185,317,964	-
Payment to Refunded Bond Escrow Agent	(117,740,930)	-
Acquisition and Construction of Capital Assets	(83,819,495)	(97,030)
Proceeds From Sale of Capital Assets	96,315	-
Principal Paid on Bonds, Leases and Notes Maturities	(13,531,230)	-
Interest Paid on Bonds, Leases and Notes	(44,072,729)	-
Capital Contributed by Other Governments	6,148,923	-
Capital Contributed by Subdividers	5,215,556	-
Net Cash Used For Capital and Related Financing Activities	(62,385,626)	(97,030)
Cash Flows From Investing Activities:		
Interest Received on Investments	1,032,063	237,016
Net Cash Provided By Investing Activities	1,032,063	237,016
Net Increase in Pooled Cash and Investments	21,768,505	11,370,289
Total Cash and Investments at Beginning of Year	175,594,944	40,055,487
Total Cash and Investments at End of Year	$ 197,363,449	$ 51,425,776

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, 2012

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	$ 115,313,322	$ 2,367,420
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	46,099,910	340,110
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(4,929,273)	85,424
Increase in Inventory	-	(193,994)
Increase in Deposits and Prepaid Costs	(2,086,282)	(348,861)
Increase in Accounts Payable	13,837,732	778,530
Increase in Other Accrued Expense	-	7,910,574
Total Adjustments	52,922,087	8,571,783
Net Cash Provided By Operating Activities	$ 168,235,409	$ 10,939,203
Noncash Transactions Affecting Financial Position:		
Contributions of Capital Assets	$ 4,449,801	$ -
Transfers of Capital Assets to Governmental Funds	-	(1,581)
Loss on Disposal of Capital Assets	(5,340,280)	(36,970)
Amortization of Bond Premium	2,395,803	-
Amortization of Debt Issuance Costs	(323,330)	-
Amortization of Deferred Amounts on Refundings	2,007,092	-

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, 2012

	Payroll Agency
ASSETS	
Pooled Cash and Investments	$ 12,851,354
Total Assets	$ 12,851,354
LIABILITIES	
Accrued Payroll Payable	$ 12,851,354
Total Liabilities	$ 12,851,354

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 441,160 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.

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

a. Reporting Entity

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 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.

(Continued)

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 $177,504. 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 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.

(Continued)

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.

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.

(Continued)

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 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.

(Continued)

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.

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.

(Continued)

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 **Highway Project Advancement Notes Fund** accumulates monies for payment of principal and interest requirements for the Highway Project Advancement notes.

The City reports the following non-major governmental funds:

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

Four 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.

Six 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.

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.

(Continued)

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 $1,302,324 which includes $218,090 of petty cash. The carrying amount of the City’s deposits was $1,084,234 and the bank balance was $227,173. The entire balance was covered by federal depository insurance. The difference of $857,061 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, 2012, 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 AA+ 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 $237,235,064.

(Continued)

The City's investments at June 30, 2012 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-2	More than 2	Concentration of Credit Risk %
U.S. Treasuries	$ 96,305,085	$ 7,182,231	$ 37,531,527	$ 51,591,327	39.44 %
U.S. Agencies:					
Federal Home Loan Bank	23,161,643	6,956,548	16,205,095	-	9.49
Federal Home Loan Mortgage Corp.	60,220,002	4,735,976	10,024,480	45,459,546	24.67
Federal National Mortgage Assn	61,034,891	5,046,235	49,756,893	6,231,763	25.00
City of Mesa Special Improvement District Bonds	3,425,492	335,000	335,000	2,755,492	1.40
Total	$ 244,147,113	$ 24,255,990	$ 113,852,995	$ 106,038,128	100.00 %

None of these Investments are callable.

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

Cash on Hand	$ 218,090
Carrying Amount of City Deposits	1,084,234
Investments in Local Govt Invest Pool	122,948,877
Repurchase Agreement	15,612,037
Cash with Trustee	98,674,150
Cash with Fiscal Agent	75,652,553
Long-Term Investments	244,147,113
Total Pooled Cash and Investments	$ 558,337,054

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 2011-12 of $534,251. 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	$ 8,336,988	$ (2,327,000)	$ 6,009,988
Courts	58,399,517	(54,292,879)	4,106,638
Other Customers	3,634,510	(1,112,100)	2,522,410
Restricted	4,879,002	-	4,879,002
Due from Other Governments			
State Shared Revenues	5,586,093	-	5,586,093
Other	9,940,778	-	9,940,778
Highway User Revenue Fund:			
Customers	36,063	-	36,063
Due from Other Governments	2,673,491	-	2,673,491
Highway Project Advancement Notes			
Restricted-Due from Other Governments	32,093,761	-	32,093,761
Non-Major Governmental Funds:			
Taxes	5,279,200	-	5,279,200
Other Customers	149,778	-	149,778
Restricted-Spec. Assessments	4,502,467	-	4,502,467
Restricted-Property Taxes	576,028		576,028
Due from Other Governments	18,658,892	-	18,658,892
Internal Service Funds			
Customers	1,442,740	-	1,442,740
Due from Other Governments	43,150	-	43,150
Total Governmental Activities	$ 156,232,458	$ (57,731,979)	$ 98,500,479
Business-Type Activities:			
Utility Customers	$ 29,420,437	$ (890,000)	$ 28,530,437
Other Customers	1,940,972	(300,000)	1,640,972
Due from Other Governments	3,370,821	-	3,370,821
Total Business-type Activities	$ 34,732,230	$ (1,190,000)	$ 33,542,230

(Continued)

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:

Rehabilitation Revolving Loans not yet due (General Fund)	$ 62,810
Surcharges included in Court Receivables (General Fund)	4,816,089
Grants received prior to meeting all eligibility requirements (General Fund)	1,823,198
Delinquent Property Taxes (Debt Service Funds)	313,793
Special assessments not yet due (Debt Service Funds)	4,502,467
Joint Project with McDot and Gilbert (Capital Project Funds)	2,238,855
Total deferred revenue for governmental funds	$ 13,757,212

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

The following interfund activities are included in the fund financial statements at June 30, 2012:

Fund	Interfund Receivables	Interfund Payables
Governmental funds:		
General Fund	$ 8,096,813	$ -
Highway User Revenue Fund		2,608,000
Non-major Governmental Funds	-	5,488,813
Total Governmental funds	$ 8,096,813	$ 8,096,813

The interfund balances at June 30, 2012 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2012 are expected to be repaid within one year.

The transfer of $83,615,000 from business-type activities to governmental activities on the government-wide statement of activities is an operational subsidy from the Enterprise Fund to the General Fund. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2012:

(Continued)

Fund	Transfers Out	Transfers In
Governmental funds:		
General Fund	$ 25,496,798	84,096,031
Highway User Revenue Fund	8,856,848	3,513
Non-major Governmental Funds	3,781,937	37,359,939
Total governmental funds	38,135,583	121,459,483
Proprietary funds:		
Enterprise Fund	83,615,000	-
Internal Service Funds	-	291,100
Total	$ 121,750,583	$ 121,750,583

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, 2012, unbilled utility service receivables are recorded in the Enterprise Fund as follows:

Electric	$ 1,273,832
Gas	892,563
Water	5,353,068
Wastewater	2,521,598
Solid Waste	1,830,090
	$ 11,871,151

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.

(Continued)

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 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 2011–12 in preparation for the implementation of fully integrated ERP system expected to go live in next fiscal year. 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, 2012 follows:

	Balance July 1, 2011	Additions	Retirements	Class Change and Transfers	Balance June 30, 2012
Governmental Activities:					
Non-depreciable Assets:					
Land	$ 265,803,456	$ 1,062,887	$ -	$ 18,455,476	$ 285,321,819
Construction-in-Progress	89,542,374	65,321,498	(23,385,989)	54,366,904	185,844,787
Total Non-depreciable Assets	355,345,830	66,384,385	(23,385,989)	72,822,380	471,166,606
Depreciable Assets:					
Buildings	300,612,775	3,014,280	-	(24,806,366)	278,820,689
Other Improvements	215,435,029	8,963,223	(4,484,965)	(139,294,540)	80,618,747
Machinery & Equipment	140,066,160	6,143,345	(7,794,669)	18,336,795	156,751,631
Intangibles	176,578	98,626	-	128,640	403,844
Infrastructure	819,889,033	4,898,900	(137,027)	72,813,091	897,463,997
Total Depreciable Assets	1,476,179,575	23,118,374	(12,416,661)	(72,822,380)	1,414,058,908
Less Accumulated Depreciation for:					
Buildings	(67,757,845)	(5,749,242)	-	5,214,853	(68,292,234)
Other Improvements	(68,229,823)	(7,980,244)	1,714,286	14,849,202	(59,646,579)
Machinery & Equipment	(95,182,019)	(9,430,208)	7,427,164	(10,376,840)	(107,561,903)
Intangibles	(162,540)	(46,308)	-	(47,860)	(256,708)
Infrastructure	(320,404,447)	(25,763,812)	135,994	(9,639,355)	(355,671,620)
Total Accum. Depreciation	(551,736,674)	(48,969,814)	9,277,444	-	(591,429,044)
Total Depreciable Assets, net	924,442,901	(25,851,440)	(3,139,217)	(72,822,380)	822,629,864
Governmental Activities Capital Assets, net	$ 1,279,788,731	$ 40,532,945	$ (26,525,206)	$ -	$ 1,293,796,470

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

General Government	$ 4,806,217
Public Safety	10,674,182
Cultural - Recreational	6,877,000
Community Environment	26,272,305
Capital assets held by the City's Internal Service funds are charged to the various functions based on their usage of the assets	340,110
Total Depreciation	$ 48,969,814

(Continued)

	Balance July 1, 2011	Additions	Retirements	Class Change and Transfers	Balance June 30, 2012
Business-type Activities:					
Non-depreciable Assets:					
Land	$ 58,802,555	$ 144,410	$ (500)	$ 33,717	$ 58,980,182
Water Rights	12,760,846	4,799,299	-	-	17,560,145
Construction-in-Progress	113,470,253	79,610,489	(37,065,919)	-	156,014,823
Total Non-depreciable Assets	185,033,654	84,554,198	(37,066,419)	33,717	232,555,150
Depreciable Assets:					
Buildings	62,413,552	454,683	-	(10,854,548)	52,013,687
Other Improvements	174,566,571	21,849,300	(5,284,068)	(129,019,647)	62,112,156
Machinery & Equipment	216,413,649	6,166,128	(1,418,008)	(169,471,824)	51,689,945
Intangibles	13,683,262	414	-	3,638,771	17,322,447
Infrastructure	1,201,069,809	12,995,855	(80,782)	305,663,893	1,519,648,775
Total Depreciable Assets	1,668,146,843	41,466,380	(6,782,858)	(43,355)	1,702,787,010
Less Accum. Depr. & Amort. for:					
Buildings	(25,883,941)	(1,278,005)	-	5,934,851	(21,227,095)
Other Improvements	(40,661,998)	(9,617,189)	7,745	44,172,803	(6,098,639)
Machinery & Equipment	(87,901,227)	(8,341,898)	1,356,545	66,395,921	(28,490,659)
Intangibles	(9,763,011)	(417,921)	-	(4,791,299)	(14,972,231)
Infrastructure	(386,588,884)	(26,444,897)	78,788	(111,712,276)	(524,667,269)
Total Accum. Depr. & Amort.	(550,799,061)	(46,099,910)	1,443,078	-	(595,455,893)
Total Depreciable Assets, net	1,117,347,782	(4,633,530)	(5,339,780)	(43,355)	1,107,331,117
Business-type Activities Capital Assets, net	$ 1,302,381,436	$ 79,920,668	$ (42,406,199)	$ (9,638)	$ 1,339,886,267

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

Electric	$ 2,944,156
Gas	3,011,300
Water	18,838,487
Wastewater	16,204,815
Solid Waste	2,207,321
Airport	1,280,834
Golf Course	238,809
Convention Center	273,418
Hohokam Stadium/Fitch Complex	710,090
District Cooling	390,680
Total Depreciation and Amortization	$ 46,099,910

(Continued)

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

Governmental Activities		Construction in Progress		Commitments
General Government	$	10,050,964	$	1,029,958
Public Safety		52,970,026		7,107,208
Cultural-Recreational		4,415,615		381,470
Community Environmental		118,263,644		28,029,507
Warehouse, Maintenance & Services		144,538		143,800
Total	$	185,844,787	$	36,691,943

Business-type Activities		Construction in Progress		Commitments
Electric	$	22,094,075	$	1,343,471
Gas		23,713,537		3,448,009
Water		92,037,781		10,523,268
Wastewater		6,917,209		2,884,859
Solid Waste		735,763		1,954,980
Airport		5,685,240		211,525
Golf Course		507,586		4
Convention Center		91,826		26
Hohokam Stadium/Fitch Complex		482,322		1
Cubs Stadium		2,660,137		4,735,891
District Cooling		1,089,347		-
Total	$	156,014,823	$	25,102,034

m. **Capitalization of Interest**

For the year ended June 30, 2012, the City capitalized net interest costs of $3,132,995 (interest expense of $3,182,676 reduced by interest income of $49,681 in the Business-type Activities Enterprise Fund). Total interest expense and income in the Business-type Activities Enterprise Fund before capitalization was $43,270,753 and $900,135 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 $200,000 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 and the Workers Compensation Fund. The claims liability in the Employee Benefits Fund is generated by the claims processing software system maintained by City Staff.

The stop loss receivable balance for the Workers' Compensation Fund at June 30, 2012 is $162,840. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $511,739 with $130,748 received this current fiscal year. The Property and Public Liability Fund does not have a stop loss receivable at June 30, 2012, and the Fund has not received any settlements in excess of insurance coverage over the past three fiscal years. The Employee Benefits Fund does not have stop loss receivable at June 30, 2012. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $3,158,065 with $397,479 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, 6/30/10	$ 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
Adjustments to Reserves-FY 11-12	$ 567,582	$ 10,816,654	$ 48,861,122	$ 60,245,358
Claim Payments-FY 11-12	(2,178,582)	(3,568,076)	(46,588,126)	(52,334,784)
Unpaid Claims, 6/30/12	$ 13,030,000	$ 18,718,196	$ 5,586,769	$ 37,334,965

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 5 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 by resolution to commit resources or to rescind the commitment. Assigned fund balance represents limitations imposed by management. Assigned fund balance requests are submitted to the Chief Financial Officer for approval/nonapproval. City Charter authorizes the City Manager or Designee the authority to perform all financial transactions. The City Manager has authorized the Chief Financial Officer this responsibility. 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, 2012 the fund balance details by classification are listed below:

Fund Balances:	General Fund	Highway User Revenue Fund	Highway Project Advancement Notes	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Costs	$ 753,701	$ 1,212	$ -	$ 82,290	$ 837,203
Restricted:					
Debt Service	-	-	127,932,813	-	127,932,813
Capital Projects	-	-	-	44,154,587	44,154,587
Quality of Life Projects	-	-	-	3,582,240	3,582,240
Streets Projects	-	-	-	- 33,805,081	33,805,081
Public Safety	311,407	-	-	-	311,407
Cultural-Recreational	127,488	-	-	-	127,488
Community Environment	-	-	-	1,804,282	1,804,282
Court	1,572,632	-	-	-	1,572,632
Committed To:					
General Govt	682,721	-	-	-	682,721
Cultural-Recreational	195,266	-	-	1,856,210	2,051,476
Court	-		-	1,074	1,074
Public Safety	2,783,213	-	-	1,084,138	3,867,351
Building Safety	682,525	-	-	-	682,525
Community Environment	642,617	-	-	6,195,898	6,838,515
Vehicle Replacements	-	-	-	5,922,672	5,922,672
General Govt Facilities	-		-	1,300,486	1,300,486
Other Commitments	5,697	-	-	-	5,697
Unassigned	78,034,860	(937)	-	-	78,033,923
Total Fund Balances	$ 85,792,127	$ 275	$ 127,932,813	$ 99,788,958	$ 313,514,173

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, 2012 as reported in Exhibit B-3 is 21.8% of General Fund expenditures budgeted for fiscal year 2012-2013.

(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 or Debt Service Funds.

Budget schedules for the 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. The Highway Project Advancement notes major governmental fund revenues and expenditures are budgeted in the special revenue funds.

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 27, 2011.

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, 2012 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 2011-12, current property tax collections were $13,796,512 or 95.99% 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 06/30/12 was $576,028 of which $262,235 was recorded as revenue and $313,793 as deferred revenue.

2. 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	$ 165,149,325	$ -	$ 51,425,776	-	$ 216,575,101
Accounts Receivable, net	18,104,077	-	1,442,740	-	19,546,817
Interest Receivable	548,812	-	-	-	548,812
Due From Other Governments	36,859,254	-	43,150	-	36,902,404
Due From Other Funds	8,096,813	-	3,457,400	(8,096,813)	3,457,400
Inventories	-	-	6,061,888	-	6,061,888
Prepaid Costs	837,203	-	657,713	-	1,494,916
Deposits	288,550	-	-	-	288,550
Restricted Pooled Cash and Investments	160,510	-	-	-	160,510
Restricted Cash With Fiscal Agent	32,712,490	-	-	-	32,712,490
Restricted Cash With Trustee	98,674,150	-	-	-	98,674,150
Restricted Accounts Receivable - Deferred	9,381,469	-	-	-	9,381,469
Restricted Due From Other Governments	32,669,789	-	-	-	32,669,789
Unamortized Bond Issuance Costs	-	2,940,257	-	-	2,940,257
Investment in Joint Ventures	-	53,681,635	-	-	53,681,635
Capital Assets	-	1,290,416,799	3,379,671	-	1,293,796,470
Total Assets	$ 403,482,442	$ 1,347,038,691	$ 66,468,338	$ (8,096,813)	$ 1,808,892,658
Liabilities					
Warrants Outstanding	$ 8,397,178	$ -	$ -	$ -	$ 8,397,178
Accounts Payable	13,987,412	-	1,098,786	-	15,086,198
Other Accrued Expenses	-	-	37,334,965	-	37,334,965
Due To Other Funds	8,096,813	-	-	(8,096,813)	-
Customer and Defendant Deposits	8,870,812	-	-	-	8,870,812
Compensated Absences	1,187,019	-	-	-	1,187,019
Restricted Bond Interest Payable	8,690,566	-	-	-	8,690,566
Restricted Note Interest Payable	3,556,148	-	-	-	3,556,148
Restricted Deferred Revenue	13,757,212	(4,879,070)	-	-	8,878,142
Matured G.O. Bonds Payable	20,135,109	-	-	-	20,135,109
Matured HURF Bonds Payable	3,290,000	-	-	-	3,290,000
Long-term Liabilities	-	828,506,522	6,986,969	-	835,493,491
Total Liabilities	89,968,269	823,627,452	45,420,720	(8,096,813)	950,919,628
Fund Balance/Net Assets					
Total Fund Balance/Net Assets	313,514,173	523,411,239	21,047,618	-	857,973,030
Total Liabilities and Fund Balance/Net Assets	$ 403,482,442	$ 1,347,038,691	$ 66,468,338	$ (8,096,813)	$ 1,808,892,658

(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	$1,876,082,150
Accumulated depreciation	(585,665,351)
	$1,290,416,799

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	$ 53,681,635

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	$ 2,940,257

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	$ 409,016,303
Notes payable	122,835,000
Capital leases	821,550
Compensated absences	16,323,141
Post employment benefits	258,277,986
Unamortized bond premiums	21,232,542
	$ 828,506,522

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	313,793
Deferred special assessment revenue	$ 4,502,467
Deferred rehabilitation loan revenue	62,810
	$ 4,879,070

(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	$ 21,047,618

(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	$ 126,644,151	$ -	$ -	$ -	$ -	$ -	$ 126,644,151
Property Taxes	14,322,925	(88,640)	-	-	-	-	14,234,285
Occupancy Taxes	2,018,764	-	-	-	-	-	2,018,764
Special Assessments	995,897	(743,945)	-	-	-	-	251,952
Licenses and Permits	13,358,859	-	-	-	-	-	13,358,859
Intergovernmental	168,433,432	(8,911)	-	-	-	-	168,424,521
Charges for Services	25,779,212	-	-	-	-	-	25,779,212
Contributions	-	-	-	17,170,502	-	-	17,170,502
Fines and Forfeitures	11,294,065	-	-		-	-	11,294,065
Investment Income	1,283,881	-	-	237,015	-	-	1,520,896
Miscellaneous	7,572,501	-	-	1,366,833	-	-	8,939,334
Other Sources:							
Capital Contributions	-	-	1,284,272	-	-	-	1,284,272
Transfers In	121,459,483	-	1,581	289,519	-	(38,135,583)	83,615,000
Face Amount of Bonds Issued	27,290,000	-	-	-	(27,290,000)	-	-
Face Amount of Notes Issued	77,835,000	-	-	-	(77,835,000)	-	-
Premiums on Issuance of Bonds	8,027,060	-	-	-	(8,027,060)	-	-
Premiums on Issuance of Notes	8,250,081	-	-	-	(8,250,081)	-	-
Issuance of Refunding Debt	67,238,160	-	-	-	(67,238,160)	-	-
Total Revenues and Other Sources	681,803,471	(841,496)	1,285,853	19,063,869	(188,640,301)	(38,135,583)	474,535,813
Expenditures/Expenses							
Current:							
General Government	41,083,321	7,120,113	7,283,711	1,982,183	3,000	-	57,472,328
Public Safety	226,428,861	38,612,330	10,826,564	11,999,024	51,423	-	287,918,202
Cultural-Recreational	43,903,634	4,715,178	7,155,241	1,360,590	36,111	-	57,170,754
Community Environment	64,403,759	4,236,508	28,472,448	201,522	278,453	-	97,592,690
Debt Service:							
Principal Payments	25,513,155	-	-	-	(25,513,155)	-	-
Interest on Bonds	18,244,535	-	-	-	(13,458)	-	18,231,077
Interest on Capital Leases	86,367	-	-	-	-	-	86,367
Interest on Notes	4,312,398	-	-	-	(998,800)	-	3,313,598
Service Charges	7,864	(7,864)	-	-	-	-	-
Cost of Issuance	869,882	-	-	-	(869,882)	-	-
Capital Outlay	66,950,632	-	(66,950,632)	-	-	-	-
Total Expenditures\Expenses	491,804,408	54,676,265	(13,212,668)	15,543,319	(27,026,308)	-	521,785,016
Other Financing Uses/ Changes in Net Assets							
Transfers Out	38,135,583	-	-	-	-	(38,135,583)	-
Payment to Refunded Bond Escrow Agent	74,127,409	-	-	-	(74,127,409)	-	-
Total Expenditures\Expenses & Other Financing Uses	604,067,400	54,676,265	(13,212,668)	15,543,319	(101,153,717)	(38,135,583)	521,785,016
Net Change for the Year	$ 77,736,071	$ (55,517,761)	$ 14,498,521	$ 3,520,550	$ (87,486,584)	$ -	$ (47,249,203)

(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	$ (88,640)
Special assessment revenue	(743,945)
Rehabilitation loan revenue	(8,911)
Total	$ (841,496)

(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	$ 53,579
Accrual of post employment benefits	(54,729,844)
Total	$ (54,676,265)

(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	$ 65,640,917
Capital outlay for joint venture	1,309,715
Depreciation expense	(48,629,704)
Loss on equity interest for joint venture	(2,006,011)
Total	$ 16,314,917

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

Donation of capital assets	$ 1,284,272
Loss on disposal of capital assets	(3,102,249)
Transfer of capital assets reclassified to transfer in	1,581
Total	$ (1,816,396)

(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	$ 18,772,769
Expenditures and other uses	(15,543,319)
Transfers out to General Fund	291,100
Change in net assets	$ 3,520,550

(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	$ (58,438,160)
Highway User Revenue bond proceeds	(36,090,000)
Highway Project Advancement note proceeds	(77,835,000)
Premiums on refunding bonds	(7,630,822)
Principal repayments	25,513,155
Payment to refunded bond escrow agent	74,127,409
Total	$ (80,353,418)

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.

Current Year bond issue cost	$ 869,882
Amortization of bond issue costs	(368,986)
Amortization of deferred refunding amounts	(1,377,803)
Current year bond premium additions	(8,646,319)
Amortization of bond premiums	2,390,060
Total	$ (7,133,166)

(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	$ (38,135,583)
Transfers in	38,135,583
Total	$ -

(Continued)

3. 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 10.74 percent of their salary to the System during fiscal year 2011-12 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, 2012, 2011 and 2010 were $14,563,437, $13,347,661 and $13,134,628 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 10 percent of their annual covered salary. The employer rate for 2011-12 was 29.79 percent. The City's contributions to EORP for the fiscal years ending June 30, 2012, 2011 and 2010 were $49,518, $44,454 and $39,152 respectively, which were equal to the required contributions for each year. The City's employees contributed $15,010, $10,446 and $10,440, 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 8.65 percent of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for 2011-12 was 23.12 (21.46 pension plus 1.66 health care) percent for fire personnel and 23.34 (21.58 pension plus 1.76 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 $4,642,890 and fire personnel $2,407,125 during fiscal year 2011-12. For 2012, the City's annual pension cost of $11,583,072 for police and $5,971,897 for fire was equal to the City's required and actual contributions for the pension cost not including health care. The required contribution was determined as part of the June 30, 2010 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 26 years.

d. **Funded Status and Funding Progress**

The funded status of the plans (excluding health insurance subsidy) as of June 30, 2011 (Latest actuarial date available) is as follows:

	Police	Fire
Actuarial accrued liability (AAL)	$ 394,642,766	$ 226,084,157
Actuarial value of plan assets	267,751,509	158,852,143
Unfunded actuarial accrued liability (UAAL)	$ 126,891,257	$ 67,232,014
Funded ratio (actuarial value of plan assets/AAL)	67.8%	70.3%
Covered payroll (active plan members)	$ 53,322,879	$ 26,468,460
UAAL as a percentage of covered payroll	238.0%	254.0%

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**
(Excluding health insurance subsidy)

Police

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	$ 11,251,641	100%	$ -
2011	10,632,286	100	-
2012	11,583,072	100	-

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	$ 5,552,793	100%	$ -
2011	5,088,956	100	-
2012	5,971,897	100	-

f. **Annual Other Post Employment Benefits Cost (Health Insurance Subsidy)**

For 2012 the City's annual Other Post Employment Benefits (OPEB) cost of $944,681 for police and $461,945 for fire was equal to the City's required contributions.

g. **Funded Status and Funding Progress**

The funded status of the plans (health insurance subsidy) as of June 30, 2011 (Latest actuarial date available) is as follows:

	Police	Fire
Actuarial accrued liability (AAL)	$ 14,829,939	$ 6,903,647
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 14,829,939	$ 6,903,647
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	$ 53,322,879	$ 26,468,460
UAAL as a percentage of covered payroll	27.8%	26.1%

(Continued)

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.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Police

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 931,954	100%	$ -
2011	866,052	100	-
2012	944,681	100	-

Fire

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 458,840	100%	$ -
2011	414,816	100	-
2012	461,945	100	-

4. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 3, 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, 2012, approximately 1,575 former employees were eligible for these benefits, an increase of 70 participants from the prior year or a 4.7% 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.

(Continued)

The unfunded actuarial accrued annual required contribution for current retirees as well as current active members for fiscal year 11-12 was $68,134,844. A liability of $12,176,413 is accrued in the business type activities financial statements, the remaining $55,958,431 has been accrued in the governmental activities column in the government-wide financial statements.

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 benefit 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, 2011, Membership Consisted of:

Retirees and Beneficiaries Receiving Benefits	1,615
Active Employees	3,310
Total	4,925

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.

(Continued)

For fiscal year ended June 30, 2012, the City contributed $14,328,105 to the plan (approximately 69.2 percent of total premiums). Plan members receiving benefits contributed $6,365,406 or approximately 30.8 percent of total premiums.

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, 2012:

Annual Required Contribution	$	86,593,869
Interest on Net OPEB Obligation		11,340,980
Adjusted to Annual Required Contribution		(15,471,900)
Annual OPEB Cost		82,462,949
Contributions Made		14,328,105
Increase in Net OPEB Obligation		68,134,844
Net OPEB Obligation – Beginning of year		252,021,769
Net OPEB Obligation – End of year	$	320,156,613

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, 2010 through 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	$81,969,756	$ 9,879,765	12.05%	$185,022,650
2011	80,493,139	13,494,020	16.76	252,021,769
2012	82,462,949	14,328,105	17.38	320,156,613

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011 was as follows: (Latest actuarial date available)

Actuarial Value of Plan Assets	$	-
Actuarial Accrued Liability		992,015,472
Unfunded actuarial accrued liability	$	992,015,472
Funded ratio		0%
Covered payroll	$	330,112,710
Unfunded actuarial accrued liability as a percentage of covered payroll		300.5%

(Continued)

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.

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, 2011
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	9.0% in 2011-2012, 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)

5. 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	$ 281,513,949	$ 58,438,160	(51,283,269)	$ 288,668,840	$ 24,157,041
Highway User Revenue Bonds	128,515,000	36,090,000	(43,210,000)	121,395,000	6,745,000
Special Assessment Bonds					
with Governmental Commitment	5,806,000	-	(744,000)	5,062,000	744,000
Less Deferred Amounts on Refundings	(4,428,090)	(3,059,250)	1,377,803	(6,109,537)	-
Total Bonds Payable	411,406,859	91,468,910	(93,859,466)	409,016,303	31,646,041
Capital Leases	2,165,596	-	(1,344,046)	821,550	681,958
Notes Payable	45,000,000	77,835,000	-	122,835,000	-
Unamortized Premiums	7,345,461	16,277,141	(2,390,060)	21,232,542	-
Post Employment Benefits	208,387,048	67,725,953	(11,767,522)	264,345,479	-
Compensated Absences	17,294,278	13,220,391	(13,272,052)	17,242,617	4,058,180
Governmental Activities Total	$ 691,599,242	$ 266,527,395	$ (122,633,146)	$ 835,493,491	$ 36,386,179
Business-type Activities:					
Bonds Payable:					
Revenue Bonds	$ 898,800,000	$ 179,175,000	(125,475,000)	$ 952,500,000	$ 21,630,000
General Obligation Bonds	2,221,051	516,840	(1,136,731)	1,601,160	712,959
Less Deferred Amounts on Refundings	(13,816,642)	(12,469,516)	2,007,092	(24,279,066)	-
Total Bonds Payable	887,204,409	167,222,324	(124,604,639)	929,822,094	22,342,959
Notes Payable	2,731,125	-	(238,150)	2,492,975	122,973
Unamortized Bond Premiums	16,008,249	5,618,290	(2,388,107)	19,238,432	-
Post Employment Benefits	43,634,721	14,736,996	(2,560,583)	55,811,134	-
Compensated Absences	4,163,267	2,930,724	(2,911,729)	4,182,262	880,460
Other Long-Term Obligations	233,508	-	(116,754)	116,754	116,754
Business-type Activities Total	$ 953,975,279	$ 190,508,334	$ (132,819,962)	$ 1,011,663,651	$ 23,463,146

Internal service funds predominantly serve the governmental funds. Accordingly long-term liabilities for them are included as part of the above totals for governmental activities. At year end $6,986,969 of internal service funds post employment benefits and compensated absences are included in the above amounts. Also, for the governmental activities, post employment benefits and compensated absences are generally liquidated by the general fund.

(Continued)

b. **Bonds Payable**

At June 30, 2012, 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.	\$ 3,962,570
\$41,680,611 2002A general obligation refunding serial bonds, (partially refunded by 2012 general obligation refunding 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, 2013.	4,816,246
\$22,565,000 2003 general obligation serial bonds, (partially refunded by 2012 general 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, 2013.	1,500,000
\$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.	44,696,910
\$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.	11,205,000
\$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.	14,428,012
\$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.	13,875,000
\$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.	48,995,000
\$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	$ 28,520,000
$27,290,000 2012 general obligation serial bonds due in annual installments ranging from $840,000 to $8,550,000, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2032.	27,290,000
$31,148,160 2012 general obligation refunding serial bonds due in annual installments ranging from $419,601 to $7,350,252, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2022.	29,927,633
Total General Obligation Bonds	**$ 285,706,371**
Deferred amounts on refundings	2,962,469
Bonds not including deferred amounts on refunding	$ 288,668,840

Street and Highway User Revenue Bonds

$31,985,000 2002 street and highway user revenue refunding bonds, (partially refunded by street and highway user revenue refunding bonds, series 2012) 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, 2013.	$ 5,667,765
$26,805,000 2003 street and highway user revenue bonds, (partially refunded by street and highway user revenue refunding bonds, series 2012) 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, 2018.	4,300,000
$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.	1,275,000
$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.	17,293,915
$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.	22,957,654
$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.	9,975,000
$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

(Continued)

$36,090,000 2012 street and highway user revenue refunding bonds, due in annual installments ranging from $665,000 to $9,700,000, plus semi-annual interest ranging from 3.0 percent to 5.0 percent through July 1, 2022.	$ 34,428,598
Total Street and Highway User Revenue Bonds	**$118,247,932**
Deferred amounts on refundings	3,147,068
Total Street and Highway User Revenue Bonds not including deferred amounts on refundings	$121,395,000

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.	$ 3,015,000
$4,091,840 2007 special assessment district bonds, due in annual principal installments ranging from $408,840 to $410,000, plus semi-annual interest of 5.0 percent, through January 1, 2017.	2,047,000
Total Special Assessment Bonds	**$ 5,062,000**
Total bonds payable recorded in governmental activities	**$409,016,303**

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.	$ 17,981
$1,529,379 2002A general obligation refunding serial bonds, (partially refunded by 2012 general obligation refunding 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, 2013.	176,517
$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.	213,918
$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.	670,870
$ 516,840 2012 general obligation refunding serial bonds, due in annual principal installments ranging from $15,399 to $269,748, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2022.	516,840
Total General Obligation Bonds	**$ 1,596,126**
Deferred amounts on refundings	5,034

(Continued)

Total General Obligation Bonds not including deferred amounts on refunding	$ 1,601,160

Utility Systems Revenue Bonds

$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.	$ 5,000,000
$129,000,000 2002 utility systems revenue refunding serial bonds, (partially refunded by 2012 and 2012 taxable utility systems revenue refunding 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.	41,969,100
$48,850,000 2002A utility systems revenue refunding serial bonds, (partially refunded by 2012 utility systems revenue refunding 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, 2015.	27,205,120
$50,470,000 2003 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) and series 2012 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, 2019.	7,000,000
$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.	39,036,086
$91,200,000 2005 utility systems revenue serial bonds, (partially refunded by 2006 (and series 2012) 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.	55,647,908
$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.	121,068,167

(Continued)

$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
$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.	17,106,824
$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 of 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 of 5.0 percent through July 1, 2035.	53,950,000
$67,300,000 2012 utility systems revenue serial bonds, due in one principal installment, plus semi-annual interest of 4.0 percent through July 1, 2036.	67,300,000
$31,580,000 2012 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $7,440,000 to $9,150,000, plus semi-annual interest ranging from 4.0 percent to 4.826 percent through July 1, 2021.	30,259,643
$80,295,000 2012 taxable utility systems revenue refunding serial bonds, due in annual principal installments ranging from $3,225,000 to $9,150,000, plus semi-annual interest ranging from 3.269 percent to 5.048 percent through July 1, 2035.	69,328,120
Total Utility Systems Revenue Bonds	**$ 928,225,968**
Deferred amounts on refundings	24,274,032
Total Utility System Revenue Bonds not including deferred amounts on refundings	$ 952,500,000
Total bonds payable recorded in business-type activities	**$ 929,822,094**

(Continued)

The following tables summarize the City's debt service requirements to maturity for its long term bonds payable at June 30, 2012. The deferred amounts on refundings are not included.

Governmental Activities

General Obligation Bonds							
Fiscal Year	Principal		Interest		Total		
2013	$	24,157,041	$	12,157,319	$	36,314,360	
2014		16,527,285		11,049,539		27,576,824	
2015		13,510,323		10,535,491		24,045,814	
2016		14,101,179		10,141,208		24,242,387	
2017		14,742,595		9,719,995		24,462,590	
2018-22		80,725,417		35,789,159		116,514,576	
2023-27		64,630,000		22,506,606		87,136,606	
2028-32		60,275,000		7,111,944		67,386,944	
TOTALS	$	288,668,840	$	119,011,261	$	407,680,101	

Highway User Revenue Bonds						
Fiscal Year		Principal		Interest		Total
2013	$	6,745,000	$	5,789,055	$	12,534,055
2014		6,945,000		5,471,900		12,416,900
2015		7,255,000		5,186,200		12,441,200
2016		7,585,000		4,884,250		12,469,250
2017		7,900,000		4,502,850		12,402,850
2018-22		45,965,000		16,245,675		62,210,675
2023-27		39,000,000		4,491,250		43,491,250
2028-32		-		-		-
TOTALS	$	121,395,000	$	46,571,180	$	167,966,180

Special Assessment Bonds

Fiscal Year		Principal		Interest		Total
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		745,000		87,970		832,970
2018-21		1,340,000		165,155		1,505,155
TOTALS	$	5,062,000	$	1,042,940	$	6,104,940

(Continued)

Business-type Activities

	General Obligation Bonds				Revenue Bonds		
Fiscal Year	**Principal**	**Interest**	**Total**	**Fiscal Year**	**Principal**	**Interest**	**Total**
2013	$ 712,959	$ 65,097	$ 778,056	2013	$ 21,630,000	$ 46,179,875	$ 67,809,875
2014	282,715	30,155	312,870	2014	22,550,000	45,196,225	67,746,225
2015	129,677	20,865	150,542	2015	23,860,000	44,060,513	67,920,513
2016	83,821	17,998	101,819	2016	24,800,000	42,876,808	67,676,808
2017	67,405	15,993	83,398	2017	26,070,000	41,668,358	67,738,358
2018-22	324,583	26,666	351,249	2018-22	161,360,000	186,547,051	347,907,051
2023-27	-	-	-	2023-27	191,110,000	145,162,401	336,272,401
2028-32	-	-	-	2028-32	239,235,000	97,524,859	336,759,859
2033-37	-	-	-	2033-37	241,885,000	30,363,484	272,248,484
TOTALS	$ 1,601,160	$ 176,774	$ 1,777,934	TOTALS	$ 952,500,000	$ 679,579,574	$ 1,632,079,574

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, 2012, 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 outstanding bonds. Special assessment bonds payable with governmental commitment currently outstanding as of June 30, 2012 are $5,062,000.

General Obligation Bonds
The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, $1,596,126 of these bonds at June 30, 2012 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

(Continued)

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, 2012 is:

6% Bonds	$164,855,287
20% Bonds	265,184,455
Total Available	$430,039,742

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, 2012, the amount provided in the Replacement and Extension Funds equaled $19,247,144 which is in compliance with the bond provisions.

d. **Notes Payable**

Governmental Activities

The City issued $122,835,000 of Highway Project Advancement Notes to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the right-of-way acquisition, design and construction of highway improvements to State Route 24 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 24. 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.

(Continued)

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.

The following table reflects the annual requirements to amortize all notes outstanding as of June 30, 2012:

	Governmental Activites			Business-type Activities		
Fiscal Year	Principal	Interest	Total	Principal	Interest & Fees	Total
2013	$ -	$ 5,404,250	$ 5,404,250	$ 122,973	$ 54,692	$ 177,665
2014	-	5,404,250	5,404,250	125,651	52,014	177,665
2015	20,000,000	5,404,250	25,404,250	128,389	49,276	177,665
2016	25,000,000	4,704,250	29,704,250	131,189	46,476	177,665
2017	14,085,000	3,891,750	17,976,750	134,052	43,613	177,665
2018-2022	63,750,000	8,162,500	71,912,500	715,549	172,777	888,326
2023-2027	-	-	-	797,594	90,732	888,326
2028-2029	-	-	-	337,578	11,153	348,731
TOTALS	$ 122,835,000	$ 32,971,250	$ 155,806,250	$ 2,492,975	$ 520,733	$ 3,013,708

(Continued)

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, 2012.

	Governmental Activities		
Fiscal Year	**Principal**	**Interest**	**Total**
2013	$ 681,958	$ 34,184	$ 716,142
2014	67,953	6,581	74,534
2015	71,639	2,894	74,533
TOTALS	$ 821,550	$ 43,659	$ 865,209

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Land	$ -
Buildings	-
Other Improvements	-
Machinery & Equipment	4,663,859
Infrastructure	3,196,300
Construction Work in Process	-
Less: Accumulated depreciation	(6,043,765)
Total	$ 1,816,394

f. **Short-term Debt**

The City had no short-term debt activity for the fiscal year ended June 30, 2012.

(Continued)

g. **Series 2012 Special Activity Revenue Bonds**

PMGAA issued $19,220,000 in special facility Revenue Bonds on February 29, 2012. The City has entered into a memorandum of understanding (MOU) with PMGAA and Able Engineering and Component Services for the development, construction and lease of aircraft maintenance repair and overhaul facility at Phoenix-Mesa Gateway Airport. In general, the MOU addresses PMGAA issuing Special Facility Revenue Bonds, constructing the facility and leasing the facility to the City. The City, in turn, will sublease the facility to Able Engineering. The City pledged a portion of its excise taxes as security for payment of the base rent. The pledge of such excise taxes will be a junior lien subordinate to certain outstanding senior obligations. The bonds are payable from the future revenues from the City through 2038. During that time frame total principal and interest to be paid on the bonds will be $35,216,300. The bonds are not considered the debt of the City.

6. REFUNDING BONDS

On April 4, 2012, the City issued $31,580,000 of utility system revenue bonds with an original issue premium of $5,319,346 to advance refund $35,280,000 of outstanding utility system revenue bonds. The refunding bonds were issued with an average interest rate of 4.59 percent. The net proceeds of $36,896,817 (after payment of $2,529 to the City) were provided to a refunding escrow agent to pay issuance costs of $231,844 for insurance premiums, underwriting fees and other issuance costs with the remaining $36,664,973 used to provide cash and purchase United States Government securities. The cash and securities were deposited in an irrevocable trust to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the debt of the City.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,384,973. This difference, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations through the year 2022 using the effective interest method. The purpose of the refunding was to take advantage of lower interest rates and restructuring debt service payments to achieve a more level debt retirement schedule. The refunding will decrease debt service payments by $3,537,059 over the next nine years producing an economic gain (difference between the present value of old and new debt service payments) of $3,541,596.

On April 12, 2012, the City issued $80,295,000 of taxable utility system revenue bonds to advance refund $68,830,000 of outstanding utility system revenue bonds. The refunding bonds were issued with an average interest rate of 5.25 percent. The net proceeds of $80,294,146 (after payment of $854 to the City) were provided to a refunding escrow agent to pay issuance costs of $401,243 for insurance premiums, underwriting fees and other issuance costs with the remaining $79,892,903 used to provide cash and purchase United States Government securities The cash and securities were deposited in an irrevocable trust to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the debt of the City.

(Continued)

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $11,062,903. This difference, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations through the year 2035 using the effective interest method. The purpose of the refunding was to take advantage of lower interest rates and restructuring debt service payments to achieve a more level debt retirement schedule. The refunding will increase debt service payments by $63,165,748 over the next twenty three years producing an economic loss (difference between the present value of old and new debt service payments) of $9,356,096.

On April 4, 2012, the City issued $36,090,000 of highway user revenue bonds with an original issue premium of $5,837,482 to advance refund $39,920,000 of outstanding highway user revenue bonds. The refunding bonds were issued with an average interest rate of 4.83 percent. The net proceeds of $41,923,969 (after payment of $3,513 to the City) were provided to a refunding escrow agent to pay issuance costs of $248,985 for insurance premiums, underwriting fees and other issuance costs with the remaining $41,674,984 used to provide cash and purchase United States Government securities The cash and securities were deposited in an irrevocable trust to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the debt of the City.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,754,984. This difference, reported in the accompanying financial statements as a deduction from highway user revenue bonds payable, is being charged to operations through the year 2022 using the effective interest method. The purpose of the refunding was to take advantage of lower interest rates and restructuring debt service payments to achieve a more level debt retirement schedule. The refunding will decrease debt service payments by $3,410,927 over the next ten years producing an economic gain (difference between the present value of old and new debt service payments) of $3,400,908

On April 4, 2012, the City issued $31,665,000 of general obligation bonds with an original issue premium of $1,823,085 to advance refund $31,665,000 of outstanding general obligation bonds. The refunding bonds were issued with an average interest rate of 2.88 percent. The net proceeds of $33,214,986 (after payment of $273,099 to the City) were provided to a refunding escrow agent to pay issuance costs of $224,081 for insurance premiums, underwriting fees and other issuance costs with the remaining $32,990,905 used to provide cash and purchase United States Government securities The cash and securities were deposited in an irrevocable trust to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the debt of the City.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,325,905. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2022 using the effective interest method. The purpose of the refunding was to take advantage of lower interest rates and restructuring debt service payments to achieve a more level debt retirement schedule. The refunding will decrease debt service payments by $2,161,552 over the next

(Continued)

ten years producing an economic gain (difference between the present value of old and new debt service payments) of $2,430,451.

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, 2012 as reflected below is not included in the City's financial statements.

Utility System Revenue Refunding Bond Issue dated March 1, 1998	$ 7,405,000
Utility System Revenue Bond Issue dated March 1, 1998	10,035,000
Utility System Revenue Refunding Bond Issue dated February 1, 2002	68,830,000
Street and Highway User Revenue Bond Issue dated September 1, 2002	15,820,000
Street and Highway User Revenue Bond Issue dated February 1, 2003	21,000,000
General Obligation Bond Issued February 1, 2003	17,065,000
Utility System Revenue Bond Issue dated February 1, 2003	40,500,000
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	$ 285,230,000

(Continued)

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	$ -	$ 10,978,943	$ -	$ 10,978,943
County Funds	-	10,598,980	-	10,598,980
Other Local Government Funds	-	640,577	-	640,577
Contributions - Capital Assets	99,287	558,636	626,349	1,284,272
Total	$ 99,287	$ 22,777,136	$ 626,349	$ 23,502,772
Business-type Activities:				
Federal and State Funds	$ -	$ 1,655,194	$ -	$ 1,655,194
Developers - Impact and Development Fees	-	-	4,337,840	4,337,840
Contributions-In-Aid	877,716	4,493,729	-	5,371,445
Contributions - Capital Assets	-	-	4,449,801	4,449,801
Total	$ 877,716	$ 6,148,923	$ 8,787,641	$ 15,814,280

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 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.

(Continued)

The total sick leave balance recorded as a liability at June 30, 2012, is $5,098,019.

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, 2012 for these services are as follows:

		Operating Expenses		
Functions	**Operating Revenues**	**Depreciation and Amortization**	**Other**	**Operating Income (Loss)**
Electric	$ 34,624,920	$ 2,944,156	$ 23,559,483	$ 8,121,281
Gas	39,139,278	3,011,300	27,579,988	8,547,990
Water	113,417,881	18,838,487	32,492,891	62,086,503
Wastewater	64,543,503	16,204,815	24,511,236	23,827,452
Solid Waste	47,630,828	2,207,321	28,946,276	16,477,231
Airport	3,270,632	1,280,834	2,448,040	(458,242)
Golf Course	2,168,575	238,809	2,295,242	(365,476)
Convention Center	2,122,304	273,418	3,207,565	(1,358,679)
Hohokam /Fitch Complex	6,073,590	710,090	7,817,116	(2,453,616)
Cubs Stadium	824,556	-	53,748	770,808
District Cooling	1,091,665	390,680	582,915	118,070
Total	$ 314,907,732	$ 46,099,910	$ 153,494,500	$ 115,313,322

11. NET ASSETS

a. Restricted Net Assets

The government-wide statement of net assets reports $110,996,021 of restricted net assets, of which $37,364,565 is restricted by enabling legislation.

(Continued)

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 $2.9 million increase in contributions to the fund during the year and a $7.2 million increase in liabilities. The increase in liabilities was the result of an actuarial study which computed a liability for incurred but not of reported of $6.2 million.

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 $1.456 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 2036. Annual principal and interest payments on the bonds were 57 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,632,079,574. Principal and interest paid for the current year and total customer net revenues were $64,830,323 and $119,060,457, respectively.

b. **Highway User Revenue Bonds**

The City has pledged future Highway User Taxes Revenue to repay $224.4 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 32 percent of eligible revenues. The total principal and interest remaining to be paid on the bonds is $167,966,180. Principal and interest paid for the current year and total highway user tax revenues were $8,853,248 and $27,825,144, respectively.

(Continued)

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 $6,104,940. Principal and interest paid for the current year and total assessments collected were $1,041,160, and $996,359, respectively.

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, 2011 (latest information available) is as follows:

(Continued)

Assets	
Equity in Pooled Cash and Investments	$ 37,395,000
Receivables	12,169,000
Inventories at Average Cost	547,000
Capital Assets	896,596,000
Total Assets	946,707,000
Liabilities	42,286,000
Net Assets	$ 904,421,000
Total Revenues	$ 55,919,000
Total Expenses	(84,325,000)
Increase (Decrease) in Net Assets	$ (28,406,000)

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.

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, 2011 (latest information available) is as follows:

(Continued)

Assets		
Equity in Pooled Cash and Investments	$	8,210,000
Receivables		9,590,000
Inventories		386,000
Capital Assets, Net of Accumulated Depreciation		298,641,000
Total Assets		316,827,000
Liabilities		13,127,000
Net Assets	$	303,700,000
Total Revenues	$	76,950,000
Total Expenses		(29,279,000)
Increase (Decrease) in Net Assets	$	47,671,000

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, 2012 is:

Mesa's Share	$ 66,803,865
Gilbert's Share	63,425,886
Queen Creek's Share	27,603,036
Total Joint Venture	$157,832,787

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 $52,152,759 has been spent on this project through the fiscal year ended June 30, 2012. The City has received $43.7

(Continued)

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, 2011, (latest information available) is as follows:

Assets	
Current Assets	$ 40,821,064
Non Current Assets	1,185,084,002
Total Assets	1,225,905,066
Liabilities	67,532,429
Net Assets	$ 1,158,372,637
Total Revenues	$ 101,267,788
Total Expenses	(121,627,679)
Decrease in Net Assets	$ (20,359,891)

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 $199.0 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). On May 1, 2012, Rio Verde Fire District Joined TOPAZ. 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 six month rolling average of airtime. 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, 2012 is:

City of Mesa	$ 1,528,876
Town of Gilbert	398,722
City of Apache Junction	91,108
Apache Junction Fire District	44,535
Town of Queen Creek	20,930
Rio Verde Fire District	7,156
Total Joint Venture	$ 2,091,327

(Concluded)

CITY OF MESA, ARIZONA
EXHIBIT B-1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Police

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2009	$ 250,465,218	$ 336,097,656	74.5 %	$ 85,632,438	$ 58,240,512	147.0 %
2010	257,026,009	357,206,422	72.0	100,180,413	56,051,165	178.7
2011	267,751,509	394,642,766	67.8	126,891,257	53,322,879	238.0

Fire

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2009	$ 155,971,492	$ 193,517,551	80.6 %	$ 37,546,059	$ 27,553,989	136.3 %
2010	156,842,989	205,749,451	76.2	48,906,462	26,743,003	182.9
2011	158,852,143	226,084,157	70.3	67,232,014	26,468,460	254.0

Other Post-Employment Benefits (Health Insurance Subsidy)

Police

Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded ALL (UALL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UALL as a % of Covered Payroll ((b - a) / c)
2009	$ -	$12,123,354	$ 12,123,354	- %	$58,240,512	20.8 %
2010	-	12,792,042	12,792,042	-	56,051,165	22.8
2011	-	14,829,939	14,829,939	-	53,322,879	27.8

Fire

Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded ALL (UALL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UALL as a % of Covered Payroll ((b - a) / c)
2009	$ -	$5,787,717	$ 5,787,717	- %	$27,553,989	21.0 %
2010	-	6,091,253	6,091,253	-	26,743,003	22.8
2011	-	6,903,647	6,903,647	-	26,468,460	26.1

CITY OF MESA, ARIZONA

EXHIBIT B-2

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFITS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 664,071,640	- %	$ 664,071,640	$ 338,835,124	196.0 %
July 1, 2009	-	916,615,559	-	916,615,559	321,012,148	285.5
July 1, 2011	-	992,015,472	-	992,015,472	330,112,710	300.5

The original GASB 43 & 45 compliant OPEB valuation for the City of Mesa had a valuation date of July 1, 2007 producing biennial funding results applying to the 2007-08 and 2008-09 fiscal years. This corresponds to the first fiscal period that GASB reporting was required for OPEB plans. The current valuation as of July 1, 2011 provides funding results for the 2011-12 and 2012-13 fiscal years with biennial valuation planned going forward from this date.

CITY OF MESA, ARIZONA

EXHIBIT B-3

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance With Final Budget - Positive (Negative)
Revenues:				
Sales Taxes	$ 85,144,000	$ 85,144,000	$ 86,996,212	$ 1,852,212
Property Taxes	14,141,000	14,141,000	14,322,925	181,925
Occupancy Taxes	1,493,000	1,493,000	2,018,764	525,764
Licenses and Permits	9,141,000	9,141,000	10,984,707	1,843,707
Intergovernmental	121,243,000	121,243,000	106,521,461	(14,721,539)
Charges For Services	8,621,000	8,621,000	9,101,614	480,614
Fines and Forfeitures	13,652,000	13,652,000	15,864,392	2,212,392
Investment Income	227,000	227,000	384,882	157,882
Miscellaneous	6,013,000	6,013,000	5,792,286	(220,714)
Total Revenues	259,675,000	259,675,000	251,987,243	(7,687,757)
Less: Bad Debts	6,200,000	6,200,000	6,980,373	(780,373)
Total Net Revenues	253,475,000	253,475,000	245,006,870	(8,468,130)
Expenditures:				
Current:				
General Government	44,974,558	46,306,811	41,668,762	4,638,049
Public Safety	227,690,949	227,614,285	209,703,437	17,910,848
Cultural-Recreational	31,296,993	32,977,552	32,002,138	975,414
Community Environment	13,895,623	15,705,089	7,328,879	8,376,210
Capital Outlay	18,977,377	19,161,179	16,303,906	2,857,273
Contingencies	36,149,000	23,732,468	-	23,732,468
Debt Service:				
Principal Retirement	19,792,234	19,792,234	18,319,505	1,472,729
Interest/Service Charges on Bonds	13,724,944	13,724,944	10,574,305	3,150,639
Total Expenditures	406,501,678	399,014,562	335,900,932	63,113,630
Deficiency of Revenues Under Expenditures	(153,026,678)	(145,539,562)	(90,894,062)	54,645,500
Other Financing Sources (Uses):				
Transfers In	83,615,000	83,615,000	87,314,000	3,699,000
Transfers Out	(11,346,000)	(11,346,000)	(9,450,700)	1,895,300
Total Other Financing Sources (Uses)	72,269,000	72,269,000	77,863,300	5,594,300
Net Change in Fund Balance	(80,757,678)	(73,270,562)	(13,030,762)	60,239,800
Fund Balance - Beginning	78,622,078	78,622,078	93,267,734	14,645,656
Increase in Restricted Fund Balance	(153,666)	(153,666)	(235,901)	(82,235)
Fund Balance - Ending	$ (2,289,266)	$ 5,197,850	$ 80,001,071	$ 74,803,221

See Note to Required Supplementary Information.

CITY OF MESA, ARIZONA

EXHIBIT B-4

HIGHWAY USER REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance With Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	$ 30,483,000	$ 30,483,000	$ 27,444,747	$ (3,038,253)
Charges For Services	39,000	39,000	143,667	104,667
Fines and Forfeitures	16,000	16,000	226,101	210,101
Investment Income	-	-	59	59
Miscellaneous	1,000	1,000	14,083	13,083
Total Revenues	30,539,000	30,539,000	27,828,657	(2,710,343)
Expenditures:				
Current:				
Community Environment	17,976,773	17,976,773	18,866,348	(889,575)
Capital Outlay	180,000	180,000	105,969	74,031
Debt Service:				
Principal Retirement	6,390,000	6,390,000	3,290,000	3,100,000
Interest/Service Charges on Bonds	6,032,243	6,032,243	5,566,848	465,395
Total Expenditures	30,579,016	30,579,016	27,829,165	2,749,851
Deficiency of Revenues Under Expenditures	(40,016)	(40,016)	(508)	39,508
Fund Balance - Beginning	406,055	406,055	783	(405,272)
Fund Balance - Ending	$ 366,039	$ 366,039	$ 275	$ (365,764)

See Note to Required Supplementary Information.

The financial statements for the City are prepared in accordance with generally accepted accounting principles – "GAAP basis". Since Mesa, like most other Arizona cities, prepares its annual budget on a modified cash basis that differs from the "GAAP basis", additional schedules of revenues and expenditures are presented for the General Fund to provide a meaningful comparison of actual results to budget on the "budget basis".

Adjustments necessary to convert the results of operations of the General Fund for the year ended June 30, 2012 on the "GAAP basis" to the "budget basis" as follows:

Net Change in Fund Balance-Budget Basis - Exhibit B-3	$ (13,030,762)
Basis Differences:	
Compensated Absences	(138,952)
Special Assessments	(45,263)
Sales Tax Accrual	(3,031,903)
Unrealized Gain on Investments	382,613
Timing Differences:	
Grants & Contributions	487,334
Net Change in Fund Balance-GAAP Basis - Exhibit A-5	$ (15,376,933)

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APPENDIX E

SUMMARY 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-Seventh Supplemental Resolution follows this Summary of the Master Resolution. The Twenty-Seventh Supplemental Resolution is substantially the same as the other twenty-six 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 2013 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-SEVENTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Twenty-Seventh Supplemental Resolution, which supplements the Master Resolution and authorizes the issuance of the Utility Systems Revenue Bonds, Series 2013, adopted by the Mayor and Council on May 16, 2013. The summary does not purport to be a full statement of the terms of the Twenty-Seventh Supplemental Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Authority. The Series 2013 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-Seventh 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 2013 Bonds. The Master Resolution, as amended and supplemented, and the Twenty-Seventh 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-Seventh Supplemental Resolution. The following terms shall have the following meanings in the Master Resolution and in the Twenty-Seventh Supplemental Resolution unless the text expressly or by necessary implication requires otherwise:

"Bond Registrar for the Series 2013 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 2013 Bonds to July 1, 2013, 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.

"Series 2013 Bonds" - the City's $47,290,000 Utility Systems Revenue Bonds, Series 2013.

"Twenty-Seventh Supplemental Resolution" – The Twenty-Seventh Supplemental Resolution supplementing the Master Resolution and authorizing the issuance of the Series 2013 Bonds.

Authorization of Series 2013 Bonds: Special Obligations.

A. There is authorized the issuance and sale of $47,290,000 City of Mesa, Arizona Utility Systems Revenue Bonds, Series 2013. The Series 2013 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 2013 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-Seventh 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 2013 Bonds in accordance with their terms, the Master Resolution and the provisions of the Twenty-Seventh Supplemental Resolution. All Net Revenues shall be immediately subject to the pledge of the Master Resolution, as amended and supplemented and the Twenty-Seventh 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-Seventh Supplemental Resolution.

C. In addition to the payments required to be made into the Bond Fund required by the Master Resolution and the previous supplemental resolutions, the following additional payments shall be made to the Bond Fund with respect to the Series 2013 Bonds on or before the tenth (10th) day of each month:

(1) Commencing on the 10th day of the month following the closing date of the Series 2013 Bonds, the amount due on the next succeeding interest payment date divided by the number of monthly payments that can be made prior to such next succeeding interest payment date, and commencing on the 10th day of the month following the first interest payment date, one-sixth (1/6) of the interest coming due on the next semiannual interest payment date on all of the Series 2013 Bonds then Outstanding; and

(2) Commencing on the 10th day of the month following the closing date of the Series 2013 Bonds, the amount due on the next succeeding principal payment date divided by the number of monthly payments that can be made prior to such next succeeding principal payment date and commencing on the 10th day of the month following the first principal payment date, one-twelfth (1/12) of the principal becoming due on the next succeeding principal payment date on all Series 2013 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-Seventh 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.

Cancellation. To the extent applicable by provision of law, and to the extent the Twenty-Seventh Supplemental Resolution constitutes a contract, it is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, as amended.

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.

NONE OF THE CITY, THE REGISTRAR OR THE FINANCIAL ADVISOR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS, OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE 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.

FORM OF APPROVING LEGAL OPINION

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June 5, 2013

MAYOR AND COUNCIL
CITY OF MESA, ARIZONA

Re: City of Mesa, Arizona, Utility Systems
Revenue Bonds, Series 2013

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the "*City*") of its $47,290,000 aggregate principal amount Utility Systems Revenue Bonds, Series 2013, dated as of the date of initial delivery (the "*Bonds*"), issued pursuant to Title 9, Chapter 5, Article 3, Arizona Revised Statutes, and all amendments thereto (the "*Act*").

We have examined the law and such documents and matters as we have deemed necessary to render this opinion, including, without limitation, Resolution No. 6362, Resolution No. 10217 and Resolution No. 10228 authorizing the issuance of the Bonds (collectively, the "*Resolution*"), passed and adopted by the Mayor and Council of the City. As to questions of fact material to our opinion we have relied upon, and assumed due and continuing compliance with the provisions of, the proceedings and other documents, and have relied upon certifications, covenants and representations furnished to us without undertaking to verify the same by independent investigation, 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 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 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 Resolution) after provision for expenses of operation and maintenance of the System as provided in the Resolution, on a parity, however, with other obligations of the City issued or to be issued under the Resolution but subject to the rights of the owners of certain bonds refunded by the irrevocable deposit in trust of moneys and obligations issued by or guaranteed by the United States government or its agencies to an equal claim on such revenues in the event the trust does not provide for all payments when due on such refunded bonds.

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 Resolution. Neither the general credit nor any property of the City other than as provided in the 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.

Bond Counsel

APPENDIX H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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$47,290,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS
SERIES 2013

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 Bonds, Series 2013 (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 May 16, 2013 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, 2014, 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:

Combined Schedules of Net System Revenues and Debt Service Coverage; and
Appendix B – Financial Data - Statements 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 Significant Events**.

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

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

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

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

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

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

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature or status of the City, or the type of business conducted;
(b) This Disclosure Certificate, as amended, would, in the opinion of Bond Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

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

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

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

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

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

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

Section 13. **Subject to Appropriation**. Pursuant to Arizona law, the City's undertaking to provide information under this Disclosure Certificate is subject to appropriation, solely from its 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.

Section 16. **Notice Concerning Cancellation of Contracts**. To the extent applicable by provision of law, this Disclosure Certificate is subject to cancellation pursuant to A.R.S. Section 38-511, as amended.

Date: June 5, 2013

CITY OF MESA, ARIZONA

By______________________________________

Its ______________________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $47,290,000 Utility Systems Revenue Bonds, Series 2013
Dated Date of Bonds: June 5, 2013 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 June 5, 2013. 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: $47,290,000 Utility Systems Revenue Bonds, Series 2013
Dated Date of Bonds: June 5, 2013 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 June 5, 2013, 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: $47,290,000 Utility Systems Revenue Bonds, Series 2013
Dated Date of Bonds: June 5, 2013 CUSIP 590545

NOTICE IS HEREBY GIVEN that the City failed to appropriate funds necessary to perform the undertaking required by the Disclosure Certificate dated June 5, 2013.

Dated: ________________

City of Mesa, Arizona

By____
Its ____

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WEDBUSH