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 covants, restrictions, conditions and requirements by the City, as mentioned under "TAX EXEMPTION" herein, interest income on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of preference to be included in the alternative minimum tax of individuals or corporations; such interest income must, however, be taken into account as an adjustment to alternative minimum taxable income for certain corporations.
See "TAX EXEMPTION" herein

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$129,000,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING BONDS, SERIES 2002

Dated: February 1, 2002 **Due: July 1, as shown below**

The City of Mesa, Arizona (the "City") Utility Systems Revenue Refunding Bonds, Series 2002 (the "Bonds") will be initially issued in book-entry-only form in the name of Cede & Co., as nominee of The Depository Trust Company, a registered securities depository ("DTC"). Beneficial interests in the Bonds will be offered for sale in $5,000 denominations and integral multiples thereof. The Bonds are being issued to provide funds to (i) refund the Bonds Being Refunded (as defined herein), and (ii) pay certain costs incurred in connection with the issuance of the Bonds.

Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2002, until 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 "The Bonds — Book-Entry-Only System."

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Maturity (July 1)	Principal Amount	Interest Rate	Yield
2004	$ 60,000	3.00 %	2.25%	2011	$ 1,740,000	4.00%	4.11%
2005	60,000	3.25	2.81	2012	15,035,000	5.25	4.27
2006	65,000	3.10	3.13	2013	16,520,000	5.25	4.38
2007	65,000	3.40	3.48	2014	29,550,000	5.25	4.50
2008	65,000	3.625	3.70	2015	15,580,000	5.25	4.60
2009	70,000	3.875	3.92	2016	25,895,000	5.25	4.68
2010	75,000	4.00	4.05	2017	24,220,000	5.25	4.74

(Plus interest accrued from February 1, 2002)

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

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

Payment of principal of and interest on the Bonds when due will be insured by a Municipal Bond New Issue Insurance Policy to be issued concurrently with the Bonds by **Financial Guaranty Insurance Company**.

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 appendicies to obtain information essential to the making of an informed investment decision with respect to the Bonds.

The Bonds are offered when, as and if issued by the City and paid for by the Underwriters, subject to the approving opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Underwriters by Snell & Wilmer L.L.P., Phoenix, Arizona, Counsel to the Underwriters. It is expected that the Bonds will be delivered to DTC on or about February 7, 2002.

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UBS PaineWebber Inc. **RBC Dain Rauscher Inc.**

Dated: January 24, 2002

CITY OF MESA, ARIZONA

CITY COUNCIL

Keno Hawker, Mayor
Jim Davidson, Vice Mayor
Bill Jaffa, Councilmember
Dennis Kavanaugh, Councilmember
Pat Pomeroy, Councilmember
Claudia Walters, Councilmember
Mike Whalen, Councilmember

CITY ADMINISTRATIVE OFFICERS

Michael Hutchinson, City Manager
Debra Dollar, Deputy City Manager
Paul Wenbert, Deputy City Manager
Larry Woolf, Financial Services Director
Larry Given, Assistant Financial Services Director
Jack Friedline, Development Services Manager
David Plumb, Utilities Manager
Debra Spinner, City Attorney
Barbara Jones, City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
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 Refunding Bonds, Series 2002 (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 the Underwriters. The presentation of information, including tables of receipts from taxes and other revenue sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No person, including any broker, dealer or salesman has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities with respect to this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

The City will covenant to provide continuing disclosure, as described in this Official Statement under "Continuing Secondary Market Disclosure" and in Appendix G — "Form of Continuing Disclosure Certificate," pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

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

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OFFICIAL STATEMENT

$129,000,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING BONDS, SERIES 2002

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 $129,000,000 Utility Systems Revenue Refunding Bonds, Series 2002 (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") administered 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 through participants in the DTC system. See "The Bonds — 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, taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position, results of operations, or other affairs of the City. No representation is made that past experience, as shown by such financial or other information, will necessarily continue or be repeated in the future.

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

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

THE BONDS

Authorization and Purpose

The Bonds are to be issued pursuant to Title 9, Chapter 5, Article 3, A.R.S., as amended; Resolution No. 6362 adopted by the Mayor and Council of the City on July 29, 1991 (the "Master Resolution"); as amended and supplemented by seven 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 (as defined herein); and as amended and supplemented by an Eighth Supplemental Resolution adopted by the Mayor and Council of the City on January 24, 2002, authorizing the issuance of the Bonds (collectively the "Supplemental Resolutions", the Supplemental Resolutions together with the Master Resolution are known herein as 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-Additional Parity Bonds" and Appendix E: "Summaries of the Master Resolution and the Supplemental Resolutions", herein.) The Bonds are being issued to provide funds to (i) refund the Bonds Being Refunded (as defined herein), and (ii) pay certain costs incurred in connection with the issuance of the Bonds.

Summaries of the Master Resolution and the Supplemental Resolutions are included in Appendix E of this Official Statement. Such summaries do not purport to be comprehensive or definitive. All references herein to the Master Resolution and the Supplemental Resolutions 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 Eighth 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 Supplemental Resolutions may be inspected at the office of the City Financial Services Director, 20 East Main Street, Suite 350, Mesa, Arizona 85201.

General Provisions

The Bonds will be dated February 1, 2002 and will bear interest from such date payable on July 1, 2002 and semiannually thereafter on July 1 and January 1 of each year (each an "Interest Payment Date") until maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover page of this Official Statement.

So long as the Book-Entry-Only System is in effect the City Financial Services Director will act as the registrar and paying agent for the Bonds (the "Registrar" and the "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 on the 15th day of the month preceding each such Interest Payment Date (the "Record Date"). Principal of the Bonds will then be payable at maturity upon presentation and surrender of the Bonds at the designated 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 ten (10) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any owner of at least $1,000,000 aggregate principal amount of the Bonds. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each.

Book-Entry-Only System

The Bonds will be executed and delivered initially in the form of one fully-registered Bond for the principal amount of each separate principal maturity, as set forth on the cover page hereof, registered in the name of Cede & Co., as nominee for DTC. DTC is a limited purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities on behalf of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect DTC Participants").

Beneficial interests in the Bonds may be purchased by or through DTC Participants. Such DTC Participants, and the investors for whom they acquire interests in the Bonds (the “Beneficial Owners”), as nominees, will not receive physical certificates, but each DTC Participant should receive a credit balance on the records of DTC in the amount of the DTC Participant's interest in the Bonds, which will be confirmed in accordance with DTC's standard procedures. The Beneficial Owners should expect to receive from the DTC Participants, or Indirect DTC Participants, as the case may be, a written confirmation of their purchases providing details of the beneficial interests in the Bonds acquired. When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference relates only to those permitted to act (by statute, regulation, or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the City, or the

Registrar and Paying Agent, only to Cede & Co., as nominee of DTC. In addition, DTC will receive payments of interest semi-annually and of principal, at maturity or upon redemption prior to maturity to be remitted to DTC Participants and, in turn, to the Beneficial Owners. Each person for whom a DTC Participant or Indirect DTC Participant has an interest in the Bonds, as nominee, may desire to make arrangements with such DTC Participant or Indirect DTC Participant to receive a credit balance in the records of such DTC Participant or Indirect DTC Participant for such payments and to have all communications of the City, or the Registrar and Paying Agent, to DTC, which may affect such person, forwarded in writing by such DTC Participant or Indirect DTC Participant.

NO ASSURANCE CAN BE GIVEN THAT DTC, DTC PARTICIPANTS AND INDIRECT DTC PARTICIPANTS WILL MAKE PROMPT TRANSFERS OF PAYMENTS TO BENEFICIAL OWNERS OR PROMPTLY FORWARD RELEVANT NOTICES OR OTHER INFORMATION. THE CITY IS NOT RESPONSIBLE OR LIABLE FOR PAYMENTS OR FAILURES TO PAY BY DTC, DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS OR FOR SENDING TRANSACTION STATEMENTS OR NOTICES TO BENEFICIAL OWNERS OR FOR MAINTAINING, SUPERVISING, OR REVIEWING RECORDS MAINTAINED BY DTC, DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS.

While the Book-Entry-Only System is in effect, transfers of beneficial interests in the Bonds will be accomplished by book entries made by DTC and the DTC Participants or Indirect DTC Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of a beneficial interest in the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor securities depository), physical certificates representing the Bonds will be registered in the names of the Beneficial Owners and delivered to the respective Beneficial Owners as provided in the Bond Resolution. Upon registration of Bonds in the Beneficial Owners' names, the Beneficial Owners will become the owners of the Bonds (the "Owners of the Bonds") for all purposes, including the receipt of principal and interest payments and notices with respect to the Bonds.

In addition, the City may determine to discontinue the Book-Entry-Only System. In such event, physical certificates representing the Bonds will be registered in the names of the Beneficial Owners and delivered to the respective Beneficial Owners as provided in the Bond Resolution.

Redemption Provisions

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

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of its water, electrical, natural gas, wastewater and solid waste systems (collectively, the "System") after provision has been made for the payment from such revenues of the reasonable and necessary expenses of operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), on a parity of lien on such Net Revenues with the City's Utility Systems Revenue Bonds, Series 1995, to be outstanding in the principal amount of $16,000,000 (the "Series 1995 Bonds"); the City's Utility Systems Revenue Refunding Bonds, Series 1995, to be outstanding in the principal amount of $26,400,000 (the "Series 1995 Refunding Bonds"); the City's Utility Systems Revenue Bonds, Series 1997, to be outstanding in the principal amount of $11,000,000 (the "Series 1997 Bonds"); the City's Utility Systems Revenue Bonds, Series 1998, to be outstanding in the principal amount of $34,600,000 (the "Series 1998 Bonds"); the City's Utility Systems Revenue Refunding Bonds, Series 1998, to be outstanding in the principal amount of $32,125,000 (the "Series 1998 Refunding Bonds"); the City's Utility Systems Revenue Bonds, Series 2000, to be outstanding in the principal amount of $51,450,000 (the "Series 2000 Bonds"); and the City's Utility Systems Revenue Bonds, Series 2002, to be outstanding in the principal amount of $57,950,000 (the "Series 2002 Bonds") (collectively, with the Bonds, the "Parity Bonds"), subject only to the rights of the owners of certain refunded bonds, including the owners of the Bonds Being Refunded, in the event of a deficiency in the income derived from the investments held in trust to provide for payment of such refunded bonds. See "Combined Schedules of Net Revenues and Debt Service Coverage", Appendix C: "City of Mesa, Arizona — Utility Systems Information" and Appendix E: "Summaries of the Master Resolution and the Supplemental Resolutions".

The Bonds are neither general obligations of the City nor constitute an indebtedness of the City when computing its limit imposed by constitutional, statutory or charter provisions nor 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 as described herein.

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 Policy Costs due and owing in such Fiscal Year.

Reserve Fund

Upon issuance of the Bonds, the Reserve Fund Value shall be increased by the City's deposit to the Reserve Fund of a Reserve Fund Guaranty in the amount of $1,130,601.62, which equals the additional Reserve Requirement after issuance of the Bonds. See "Debt Service Reserve Fund Policy".

If, on any principal or interest payment date, the amount of cash and investments on deposit in the Bond Fund is less than the total amount of principal and interest due and payable on such date (the "Deficiency"), the Deficiencyshall be cured by liquidation of any investments held in the Reserve Fund in an amount sufficient, when combined with any cash and transferred to the Bond Fund, to fund the Deficiency. If the Deficiency is not cured by the foregoing, then the Paying Agent shall deliver a request for the amount of the net Deficiency to the Reserve Fund Guarantor(s) (the "Drawdown"). All money so transferred from the Reserve Fund to provide for any Deficiency, or used to reimburse the Reserve Fund Guarantor(s), shall be replaced with the first money thereafter received in the Revenue Fund. See Appendix E: "Summaries of the Master Resolution and the Supplemental Resolutions."

The following table sets forth a description of the Reserve Fund Guaranty insurance policies which comprise the Reserve Requirement after issuance of the Bonds, including the additional Reserve Fund Guaranty which will be purchased with a portion of the proceeds of the Bonds. The expiration dates of the policies set forth the status of each policy following issuance of the Bonds. Pursuant to such policies, each Reserve Fund Guarantor is required to fund its respective portion of any Drawdown on a pro rata basis calculated as the percentage its amount bears in relation to the total of all outstanding Reserve Fund Guarantys.

Reserve Fund Guarantor	Policy Amount	Expiration Date
Financial Guaranty Insurance Company	$ 7,256,934.58	July 1, 2015
MBIA Insurance Corporation	8,288,576.40	July 1, 2012
Ambac Assurance Corporation	3,012,092.00	July 1, 2018
Financial Guaranty Insurance Company	6,813,336.72	July 1, 2019
Financial Guaranty Insurance Company	3,079,766.24	July 1, 2021
Financial Guaranty Insurance Company	1,130,601.62	July 1, 2017

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 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 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 Financial Services Director. 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, 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 supplemental resolutions. The City is currently authorized to issue $123,787,000 of utility systems revenue bonds pursuant to voter approval given at special bond elections held on March 29, 1994, March 26, 1996 and March 14, 2000. The purposes and amounts of such authorized but unissued bonds are set forth below.

Purpose of Utility Systems Revenue Bond Authorization	Remaining 1994 Bond Authorization*	Remaining 1996 Bond Authorization*	Remaining 2000 Bond Authorization	Total Utility Systems Revenue Bonds Authorized But Unissued
Gas System Improvements	$ 0	$ 0	$ 5,700,000	$ 5,700,000
Water System Improvements	0	10,057,000	68,825,000	78,882,000
Wastewater System Improvements	0	23,285,000	6,605,000	29,890,000
Solid Waste System Improvements	9,315,000	0	0	9,315,000
Total	$ 9,315,000*	$ 33,342,000*	$ 81,130,000	$ 123,787,000

*Utility systems bonds remaining authorized but unissued from the City's March 29, 1994 and March 26, 1996 special elections may, at the option of the City, be issued as either general obligation bonds or utility systems revenue bonds.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, and not on any other date on which the Bonds may have been otherwise accelerated or advanced in maturity and covers the failure to pay an installment of interest on the stated date for its payment.

Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for discussion of such ratings and the basis for their assignment to the Bonds.

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

Financial Guaranty is a wholly owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2001, the total capital and surplus of Financial Guaranty was approximately $1.033 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principals and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

DEBT SERVICE RESERVE FUND POLICY

Concurrently with the initial issuance of the Bonds, Financial Guaranty will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal of and interest on the outstanding Parity Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, which is $1,130,601.62, which corresponds to the increase in the Reserve Requirement upon issuance of the Bonds. See “Security for and Sources of Payment of the Bonds-Reserve Fund”.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of initial delivery of the Bonds. The Reserve Policy constitutes a portion of the Reserve Fund which covers failure to pay principal of or interest on outstanding Parity Bonds on their respective stated maturity or payment dates, and not on any other date on which Parity Bonds may have been accelerated. The Reserve Policy shall terminate on the scheduled final maturity date of the Bonds.

Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the City fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

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

ELECTRICAL UTILITY INDUSTRY DEREGULATION

The electric utility industry is undergoing a fundamental transformation leading to a more competitive environment through changes in federal and state laws that would permit competition for sales of electricity at retail. In addition, the restructuring has brought, and will bring, industry mergers and acquisition, competitive transmission access, and competition from other utilities, marketers and independent power producers in the sale of capacity and energy in the retail market.

In December 1996, the Arizona Corporation Commission ("ACC") adopted rules for the implementation of retail competition by public service corporations in Arizona. These rules provide for a phase-in of retail competition beginning in January 1999 with 100% competition by January 2003. The rules also provide for the use of intergovernmental agreements ("IGAs") between the ACC and municipal, tribal and other governmental entities, like the City, to coordinate the introduction of retail competition within the service areas under their respective jurisdictions.

In the 1998 legislative session, the Arizona legislature adopted legislation addressing many of the issues of deregulation (the "Deregulation Act"). The Deregulation Act establishes a framework for electric competition for public power entities (such as the City), and confirms the ACC's authority to set the framework for public service corporations. It requires a phasing in of competition on the sale of retail electric power by public power entities. However, under the Deregulation Act, the City could determine to not open its service area to competition, so long as the City does not provide service outside its service area boundaries. In August of 1998, the City adopted a resolution exercising its authority to "opt out" of competition due to noncompetition covenants made by the City in the Bond Resolution. In 2000, the Arizona legislature adopted a bill to require the City to open its service territory to competition in January 2002, thus the City's current electric service area of six square miles will be open to competition. However, the City will also then be able to compete for customers throughout the City limits, which encompass approximately 125 square miles. The City's covenant not to allow competing utility services is, therefore, no longer effective.

The Deregulation Act makes further provisions regarding such things as public hearing procedures, recapture of stranded costs, consumer protection and information, rate regulation, application of transaction privilege taxes and franchise fees to elements of electrical service.

Although industry restructuring, and current and future legislative changes may impact the City's electrical distribution operations, the ultimate outcome of the Deregulation Act and any future legislation regarding competition and their effect on the City are not certain. It is impossible to predict at this time how the implementation of such rules will impact the City and its electrical distribution system. It is possible that the implementation of such rules could ultimately have a material adverse effect on the revenues from the electrical system. In fiscal year 2000/01 the Net Revenues available from the electric system for general fund purposes, after provision for the payment of outstanding utility systems revenue bond debt service, are estimated by the City to have been approximately $13,223,381.

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.

	2000/01	1999/00	1998/99	1997/98	1996/97
System Revenues:*					
Electric System	$ 47,471,663	$ 28,060,877	$ 30,720,507	$ 26,469,379	$ 26,891,245
Gas System	31,799,719	21,721,252	18,860,753	19,635,840	19,490,787
Water System	68,337,318	67,308,021	62,238,623	56,726,834	52,588,275
Wastewater System	41,681,117	38,571,130	35,932,329	35,715,588	31,713,495
Solid Waste System	26,786,197	24,850,709	23,045,256	21,688,744	20,089,728
Total System Revenues	$ 216,076,014	$ 180,511,989	$ 170,797,468	$ 160,236,385	$ 150,773,530
System Expenses*:					
Electric System	$ 29,276,403	$ 18,835,442	$ 18,960,253	$ 17,531,831	$ 17,311,301
Gas System	25,497,857	16,128,777	15,000,154	15,565,148	14,824,367
Water System	30,423,358	28,656,677	27,345,316	24,600,728	22,672,692
Wastewater System	14,956,558	12,895,900	12,204,107	12,184,028	10,938,911
Solid Waste System	19,234,223	17,628,676	17,216,359	16,173,566	15,276,127
Total System Expenses	$ 119,388,399	$ 94,145,472	$ 90,726,189	$ 86,055,301	$ 81,023,398
Net Income Available For Debt Service (Net Revenues)	$ 96,687,615	$ 86,366,517	$ 80,071,279	$ 74,181,084	$ 69,750,132
Utility Systems Revenue Bond Debt Service Requirements	$ 14,250,528	$ 11,844,338	$ 11,669,338	$ 9,666,397	$ 18,082,908
Approximate Debt Service Coverage Provided By Net Revenues	6.78x	7.29x	6.86x	7.67x	3.85x

Source: City of Mesa, Arizona Financial Services Department

*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. The City also expects to utilize the Net Revenues for payment of its utility system-supported general obligation bonds outstanding in the aggregate principal amount of $48,949,330.

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 2000/01, such transfer occurred in the amount of $55 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 obligations are issued 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, energy costs, and interest rate levels.

Impact of Electric Deregulation. The impact of deregulation of the electric utility industry on the City is unclear. Such deregulation could have a material adverse effect on the Net Revenues of the System.

Other Considerations. The Audited Financial Statements of the City included in Appendix E hereto are for the fiscal year ended June 30, 2001 and are not current. Such financial statements are the most recent audited financial statements for the City.

PLAN OF REFUNDING

The proceeds of the sale of the Bonds after payment of costs of issuance will be applied to provide for the payment of principal of, premium and interest on the Bonds Being Refunded up to and on their stated prior redemption dates. A portion of such proceeds will be used to acquire direct, noncallable obligations issued by the United States of America (the "Government Obligations"), the principal of and interest on which, when due, are calculated to be sufficient to provide moneys to pay the principal of, premium and interest to become due on the Bonds Being Refunded up to and upon their redemption prior to maturity. See "Verification of Mathematical Computations" below. To the extent such investments and remaining amounts of proceeds are not sufficient therefor, the City will remain liable for payment of the Bonds Being Refunded from the Net Revenues. See "The Bonds — Security For and Sources of Payment of the Bonds" herein.

The Government Obligations and any such remaining amount of proceeds of the Bonds will be held by U.S. Bank, N.A., as trustee (the "Trustee"), in trust for the payment of principal, premium and interest on the Bonds Being Refunded pursuant to the terms of a Depository Trust Agreement, dated as of February 1, 2002, by and between the City and the Trustee.

Bonds Being Refunded

The following table sets forth the Bonds Being Refunded and their prior redemption dates.

Refunded Issue*	Maturity Date (July 1)	CUSIP Numbers	Principal Amount Outstanding	Principal Amount Being Refunded	Date of Prior Redemption (July 1)	Redemption Premium
Utility Systems Revenue Bonds, Series 1995	2012	590545 FQ7	7,500,000	7,500,000	2005	1%
	2013	590545 FR5	8,000,000	8,000,000	2005	1%
	2014	590545 FS3	8,500,000	8,500,000	2005	1%
Utility Systems Revenue Bonds, Series 1997	2014	590545 GD5	12,150,000	12,150,000	2007	1%
	2015	590545 GE3	12,800,000	12,800,000	2007	1%
	2016	590545 GF0	22,980,000	22,980,000	2007	1%
	2017	590545 GG8	24,300,000	24,300,000	2007	1%
General Obligation Bonds, Series 1999	2011	590485 NE4	2,500,000	1,665,000	2009	NA
	2012	590485 NF1	3,000,000	2,000,000	2009	NA
	2013	590485 NG9	3,750,000	2,500,000	2009	NA
	2014	590485 NH7	4,000,000	2,665,000	2009	NA
	2015	590485 NJ3	4,250,000	2,830,000	2009	NA
	2016	590485 NK0	4,500,000	2,995,000	2009	NA
Utility Systems Revenue Bonds, Series 2000	2012	590545 HM4	5,500,000	5,500,000	2009	NA
	2013	590545 HN2	6,000,000	6,000,000	2009	NA
	2014	590545 HP7	6,250,000	6,250,000	2009	NA

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton, L.L.P., a firm of certified public accountants (the "Verification Agent"), will deliver to the City, on or before the initial date of delivery of the Bonds, its verification report indicating that it has verified, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the City and the Underwriters (as hereafter defined). Included in the scope of its engagement will be a verification of mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and maturing principal of and interest on the Government Obligations to pay, when due, the principal of and interest on and related call premium requirements of the Bonds Being Refunded, and (b) the mathematical computations supporting the conclusion that the Bonds are not "arbitrage bonds" under the Iinternal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (the "Code").

The verification performed by the Verification Agent will be solely based upon information and assertions provided to the Verification Agent by the City and the Underwriters. The Verification Agent's report of its examination will state that the Verification Agent as no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
The Bonds	$129,000,000.00
Net Original Issue Premium	8,085,680.95
Accrued Interest	112,377.40
Total Sources of Funds	$137,198,058.35
Uses of Funds:	
Deposit to Depository Trust and Costs of Issuance*	$135,752,238.58
Deposit to Bond Fund	1,445,819.77
Total Uses of Funds	$137,198,058.35

*Certain costs incurred by the City in connection with the issuance of the Bonds will be paid by the Depository Trustee from proceeds of the Bonds. Includes bond insurance premiums, bond counsel fees and other associated costs.

DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

The following schedule sets forth (i) the annual debt service requirements of the City's outstanding utility systems revenue bonds, net of the Bonds Being Refunded, (ii) the annual debt service requirements of the Bonds, (iii) the combined annual utility systems revenue bond debt service requirements following issuance of the Bonds and (iv) the debt service coverage provided by the fiscal year 2000/01 Net Revenues for such combined annual debt service requirements in fiscal years 2001/02, 2002/03 and 2014/15.

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 (a) Principal	Interest	The Bonds Principal	Interest(b)	Combined Annual Debt Service Requirements	Debt Service Coverage Provided By Net Revenues(d)
2001/02	$ 4,650,000	$ 6,111,194		$ 2,809,435(c)	$ 13,570,629	7.12x
2002/03	8,475,000	12,014,138		6,742,644	27,231,782	3.55x
2003/04	13,950,000	11,625,638	$ 60,000	6,742,644	32,378,282	
2004/05	250,000	10,759,138	60,000	6,740,844	17,809,982	
2005/06	275,000	10,748,763	65,000	6,738,894	17,827,657	
2006/07	275,000	10,737,213	65,000	6,736,879	17,814,092	
2007/08	18,600,000	10,725,525	65,000	6,734,669	36,125,194	
2008/09	6,250,000	9,795,525	70,000	6,732,313	22,847,838	
2009/10	9,150,000	9,411,563	75,000	6,729,600	25,366,163	
2010/11	16,550,000	8,841,313	1,740,000	6,726,600	33,857,913	
2011/12	15,475,000	7,787,188	15,035,000	6,657,000	44,954,188	
2012/13	16,125,000	6,767,125	16,520,000	5,867,663	45,279,788	
2013/14	4,700,000	5,989,437	29,550,000	5,000,363	45,239,800	
2014/15	20,650,000	5,751,562	15,580,000	3,448,988	45,430,550	2.13x
2015/16	12,100,000	4,704,212	25,895,000	2,631,038	45,330,250	
2016/17	12,800,000	4,100,813	24,220,000	1,271,550	42,392,363	
2017/18	13,250,000	3,459,688			16,709,688	
2018/19	21,000,000	2,810,000			23,810,000	
2019/20	17,000,000	1,750,000			18,750,000	
2020/21	18,000,000	900,000			18,900,000	
	$229,525,000		$129,000,000			

(a) Represents all of the City's outstanding utility systems revenue bonds, net of the Bonds Being Refunded.

(b) Interest is actual.

(c) The first interest payment on the Bonds is due on July 1, 2002, representing five months' interest from the date of the Bonds. Thereafter, interest payments will be made semiannually on January 1 and July 1, until maturity of the Bonds.

(d) Debt Service Coverage is computed using the Net Revenues of $96,687,615 for fiscal year 2000/01. See "Combined Schedules of Net Revenues and Debt Service Coverage", herein. The fiscal year 2000/01 Net Revenues provide coverage for the combined annual debt service requirements in fiscal years 2001/02 and 2002/03 of approximately 7.12x and 3.55x, respectively, and approximately 2.13x the combined annual debt service requirements for fiscal year 2014/15, the Maximum Annual Debt Service payable on all Parity Bonds to be outstanding immediately after issuance of the Bonds.

RATINGS

Moody's Investors Service ("Moody's) and Standard and Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("S&P"), have assigned ratings of "Aaa" and "AAA", respectively, for the Bonds with the understanding that upon delivery of the Bonds the Policy will be issued by Financial Guaranty. 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") that it will file notices with the Nationally Recognized Municipal Securities Information Repositories, the Municipal Securities Rulemaking Board and any State repository hereafter designated, of any formal change in the ratings relating to the Bonds.

LEGAL MATTERS

Legal matters incident to the issuance and delivery of the Bonds, the validity and the tax-exempt status of the Bonds (see "Tax-Exemption") are subject to the legal opinion of Gust Rosenfeld P. L. C., whose services as Bond Counsel have been retained by the City. The signed legal opinion of Gust Rosenfeld P. L. C., dated and premised on the law in effect as of the date of original delivery of the Bonds, will be delivered to the City at the time of original issuance. Certain legal matters will be passed upon for the Underwriters (as defined below under "Underwriting"), by Snell & Wilmer L.L.P., Phoenix, Arizona, as Counsel to the Underwriters.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix F. The legal opinion to be delivered may vary from the text of Appendix F 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.

Bond Counsel has provided and will opine to the Underwriters upon the information on the cover, in APPENDICES E, F and G and under the headings "THE BONDS" (except for the subheading Book-Entry-Only System), "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS," "TAX EXEMPTION," "ORIGINAL ISSUE PREMIUM," "ORIGINAL ISSUE DISCOUNT," "MARKET DISCOUNT," "POLITICAL DONATIONS (as it relates to Bond Counsel only)," "RELATIONSHIP AMONG PARTIES (as it relates to Bond Counsel only)," and "CONTINUING DISCLOSURE," but otherwise has not participated in the preparation of this Official Statement and will not opine upon its accuracy, completeness or sufficiency. Bond Counsel has not been engaged to confirm, examine or verify the accuracy, completeness or fairness of any information in this Official Statement, including the financial or statistical statements or data contained in this Official Statement and will express no opinion with respect thereto.

TAX EXEMPTION

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 covenants, restrictions, conditions and requirements by the City as described below, interest income on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Arizona income taxes. A form of such opinion is included herein in Appendix F: "Form of Approving Legal Opinion".

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

The Code also imposes an "alternative minimum tax" ("AMT") upon certain corporations and individuals. The AMT is equal to the excess (if any) of a taxpayer's "tentative minimum tax" for a taxable year over its regular income tax liability for the taxable year. The tentative minimum tax is based upon a taxpayer's "alternative minimum taxable income" ("AMTI"). A taxpayer's 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, included in the adjustments of AMTI for corporations (excluding subchapter S corporations, regulated investment companies, real estate investment trusts, REMICs and FASITs) is an adjustment increasing any such corporation's AMTI by 75% of the excess (if any) of such corporation's "adjusted current earnings" over the corporation's AMTI for the taxable year (determined without regard to such adjustment for excess current earnings and the alternative minimum 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.

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.

Under existing federal tax law, if the Bonds are determined to be invalid for failure to comply with a substantive or procedural requirement of local law, the Bonds will be deemed not to be an obligation of the City and interest on the Bonds will not be excludable from gross income for federal income tax purposes. The Bonds do not provide for an adjustment in interest rate or yield in the event of taxability, and an event of taxability does not cause an acceleration of the principal of the Bonds.

ORIGINAL ISSUE PREMIUM

The initial public offering price of the Bonds due on July 1, 2004, July 1, 2005 and July 1, 2012 through and including July 1, 2017 (collectively, the "Premium Bonds") are greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial Beneficial Owner of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial Beneficial Owner must be reduced each year by the amortizable bond premium, although no Federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial Beneficial Owner is determined by using such Beneficial Owner's yield to maturity. Beneficial Owners of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for Federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

ORIGINAL ISSUE DISCOUNT

The initial offering prices of the Bonds due on July 1, 2006 through and including July 1, 2011 (collectively, the "Discount Obligations"), are less than the respective amounts payable at maturity. As a result, the Discount Obligations will be considered to be issued with original issue discount. The difference between the initial public offering price (the "Issue Price") of the Discount Obligations, and the amount payable a maturity of the Discount Obligations will be treated as "original issue discount." With respect to a Beneficial Owner who purchases a Discount Obligation in the initial public offering at the Issue Price and who holds the Discount Obligation to maturity, the full amount of original issue discount will constitute interest which is not includible in the gross income of the Beneficial Owner of the Discount Obligation for Federal income tax purposes and Arizona income tax purposes and that Beneficial Owner will not, under present Federal income tax law and present Arizona income tax law, realize a taxable capital gain upon payment of the Discount Obligation at maturity.

The original issue discount on each of the Discount Obligations is treated for Federal income tax purposes and Arizona income tax purposes as accreting daily over the term of such Discount Obligation on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on January 1 and July 1 (with straightline interpolation between compounding dates).

The amount of original issue discount accreting each period will be added to the Beneficial Owner's tax basis for the Discount Obligation. The adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Obligation. An initial Beneficial Owner of a Discount Obligation who disposes of the Discount Obligation prior to maturity should consult his or her tax advisor as to the amount of the original issue discount accreted over the period held and the amount of taxable gain or loss upon the sale or disposition of the Discount Obligation prior to maturity.

The Code contains certain provisions relating to the accretion of original issue discount in the case of subsequent Beneficial Owners of the Discount Obligations. Beneficial Owners who do not purchase the Discount Obligations in the initial offering at the issue price should consult their own tax advisors with respect to the tax consequences of the ownership of Discount Obligations. See "Market Discount Provisions."

A portion of the original issue discount that accretes in each year to a Beneficial Owner of a Discount Obligation may result in certain collateral Federal income tax consequences.

Beneficial Owners of Discount Obligations in states other than Arizona should consult their own tax advisors with respect to the state and local taxes.

Beneficial Owners of Discount Obligations should consult their own tax advisors with respect to the determination for Federal income tax purposes of interest accrued upon redemption of such Discount Obligations prior to their stated maturity, and with respect to the state and local consequences of owning such Discount Obligations.

MARKET DISCOUNT

If a Bond is purchased at any time for a price that is less than the Bond’s stated price at its final scheduled payment date or, if issued with original issue discount, the "issue price" plus accreted original issue discount, the Beneficial Owner, unless certain exceptions apply, will be treated as having purchased an obligation with market discount subject to the market discount rules of the Code. Accreted market discount is treated as taxable ordinary income and is recognized when an obligation is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the Beneficial Owner's election, as it accretes. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such obligation. Beneficial Owners should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

LITIGATION

To the knowledge of the City, no litigation or administrative action or proceeding is pending or threatened restraining or enjoining, or seeking to restrain or enjoin, the execution, sale or delivery of the Bonds or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be executed, sold or delivered, or the validity of the Bonds.

CERTIFICATION CONCERNING OFFICIAL STATEMENT

The closing documents will include a certificate confirming that, to the best knowledge, information and belief of the City's Financial Services Director, 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.

POLITICAL DONATIONS

Neither the Underwriters nor their employees are known to have made political contributions to any person seeking a seat on the City Council at its last election. A partner of Gust Rosenfeld P.L.C., Bond Counsel, made a donation to a mayoral candidate in the City's last mayoral election.

UNDERWRITING

The Bonds are being purchased for reoffering by UBS PaineWebber Inc. and RBC Dain Rauscher Inc. (the "Underwriters"). The Underwriters have agreed to purchase the Bonds, subject to certain conditions, at an aggregate purchase price of $137,085,680.95, plus interest accrued to the date of issuance. The aggregate purchase price does not include compensation to the Underwriters of $365,989.20.

The Underwriters are committed to purchase all of the Bonds if any are purchased. The Bonds are offered for sale initially at the approximate yields set forth on the cover page of this Official Statement, which yields may be changed, from time to time, by the Underwriters. The Bonds may be sold to certain dealers (including underwriters and dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

RELATIONSHIPS AMONG PARTIES

Bond Counsel serves as underwriter's counsel for certain of the Underwriters with respect to certain financings undertaken by other Arizona municipal governments. Counsel to the Underwriters serves as special counsel to the City with respect to certain financings and other legal matters undertaken by the City.

CONTINUING SECONDARY MARKET DISCLOSURE

The City has covenanted for the benefit of the 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, 2003 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with any state information depository established by the State (at present no such state information depository has been designated). Notices of material events will also be filed by the City with each Nationally Recognized Municipal Securities Information Repository, the Municipal Securities Rulemaking Board and with any state information depository established by the State of Arizona. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in Appendix G: "Form of Continuing Disclosure Certificate," attached hereto. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). 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. A failure by the City to comply with any of such covenants could adversely affect the Bonds and specifically their market price and marketability. The City is in compliance with its existing continuing disclosure undertakings.

CANCELLATION OF CONTRACTS

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

GENERAL PURPOSE FINANCIAL STATEMENTS

The Audited General Purpose Financial Statements of the City for the year ended June 30, 2001, a copy of which is included in Appendix D of this Official Statement, have been audited by Deloitte & Touche 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, 2001 and are not current. The City neither requested nor obtained the consent of Deloitte & Touche LLP to include the report, and Deloitte & Touche LLP has performed no procedures subsequent to rendering its opinion on such financial statements.

CONCLUDING STATEMENT

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

Neither this Official Statement nor any statements that may have been or that may be made orally or in writing are to be construed as a part of a contract with the Underwriters 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 Finance Director, as indicated below.

CITY OF MESA, ARIZONA

By: /s/________________________________

Financial Services Director

APPENDIX A

CITY OF MESA, ARIZONA

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

CITY OF MESA, ARIZONA

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The City is the third largest city in the State and the 46th largest city in the United States. Founded in 1878 and incorporated in 1883, the City has a 2001 estimated population of 420,525. For the period 1980 to 1990, the City was the fastest growing city in the nation according to the U.S. Census Bureau. The City grew approximately 89% during that decade from a population of 152,453 to a population of 288,091. The following table illustrates the City's population statistics since 1980, along with the population statistics for Maricopa County, Arizona (the "County") and the State, respectively.

POPULATION STATISTICS

Year	City of Mesa	Maricopa County	State of Arizona
2000 Census	396,375	3,072,149	5,130,632
1995 Special Census	338,117	2,551,765	4,228,900
1990 Census	288,091	2,122,101	3,665,305
1985 Special Census	239,587	1,837,956	3,187,000
1980 Census	152,453	1,509,262	2,718,425

Source: City of Mesa and Arizona Department of Economic Security, Population and Statistical Unit.

The following table sets forth a record of the City's geographic area since 1960.

SQUARE MILE STATISTICS
City of Mesa, Arizona

Year	Square Miles
2000	125.00
1990	122.11
1980	66.31
1970	20.80
1960	13.50

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

The City Manager, who has full responsibility for carrying out City Council policies and administering City operations, is appointed by the Mayor and City Council. The City Manager is responsible for the appointment of City department heads. Additionally, City employees are hired under merit system procedures as specified in the City Charter. The various functions of City government and operations are undertaken by City employees working within 11 City departments.

City Administrative Staff

Michael T. Hutchinson, City Manager. Mr. Hutchinson was appointed City Manager in March 2000. Prior to his appointment he served as Assistant City Manager, Acting Community Services Manager, Assistant to the Manager, Administrative Assistant I and II and Administrative Intern. Before joining the City, he served as a Research Assistant at the Center for Public Affairs, Arizona State University. Mr. Hutchinson has a Master of Public Administration degree from Arizona State University and a Bachelor of Arts degree in History from the State University of New York at Oswego. He is a member of the American Society for Public Administration, a full member of the International City Management Association, a member of the International City Management Association Hispanic Network, and a member of the Arizona City Management Association. He is a member of the Board of Directors of the Mesa Economic Growth Association and honorary member of the Mesa Leadership Training and Development Program Alumni Association.

Debra L. Dollar, Deputy City Manager. Ms. Dollar was appointed Deputy City Manager in September 2000. She oversees three City departments: Community Services, General Services and Management Services. Before joining the City, she served with the City of Scottsdale, Arizona since 1980 in various management positions, including Planning Systems General Manager, Community Planning Administrator, Citizen Services Administrator, Assistant to the City Manager, and Communications and Public Affairs Director. Ms. Dollar has a Bachelor of Fine Arts degree in Environmental Design from Arizona State University. She is a member of the International City/County Management Association, Arizona Management Association, Arizona Municipal Management Assistants Association, and American Planning Association. She is on the Board of Directors of Valley Forward and served on the Scottsdale Leadership Executive Committee.

Paul A. Wenbert, Deputy City Manager. Mr. Wenbert was appointed Deputy City Manager in October 2000. He oversees three City departments: Development Services, Neighborhood Services and Utilities. Before joining the City, he served as City Administrator with the City of Newton, Iowa from 1991 to 2000, Village Manager of Villa Park, Illinois from 1987 to 1991, and Assistant City Manager for Operations with the City of Ames, Iowa from 1983 to 1987. From 1979 to 1983, Mr. Wenbert served with the City of Mesa as Senior Administrative Assistant and other administrative positions. He has a Master of Public Administration degree from Arizona State University and a Bachelor of Science in Public Affairs degree from Indiana University. He is a member of the Management Innovation Advisors Group and former Regional Vice President of the International City/County Management Association. He served as the president of the Iowa City/County Management Association and was a member and past president of the Newton Noon Rotary Club.

Larry Woolf, Financial Services Director. Mr. Woolf was appointed Financial Services Director of the City in 1998. Mr. Woolf has been employed by the City since 1974, serving in various positions in the City Financial Services Department. Prior to his appointment as Financial Services Director, he served the City as Assistant Financial Services Director, Controller, Investment Administrator and as Accountant. Mr. Woolf has a Bachelor of Science degree in accounting from Southern Utah University. He is a member of the Government Finance Officers Association and the Arizona Finance Officers Association.

Jack Friedline, Development Services Manager. Mr. Friedline has served as Development Services Manager of the City since January 1999 after having served as the City's Solid Waste and Facilities Director from August 1993 through January 1999. Prior to his employment with the City, Mr. Friedline served as Deputy Public Works Director for the City of Phoenix, Arizona from 1987 to 1992. He holds a Bachelor of Science degree from Buffalo State College and a Master of Public Administration degree from Arizona State University.

David Plumb, Utilities Manager. Mr. Plumb serves as manager of the City's Utilities Department, which encompasses all electric, natural gas, water, wastewater and irrigation services. He is the former manager of the City of Pasadena, California, Water and Power Department, where he also served on the board of directors of the Southern California Public Power Authority. Prior to that, Mr. Plumb was the director of municipal utilities for the City of Longmont, Colorado. Mr. Plumb holds a Bachelor of Science degree in engineering and a Master of Business Administration degree from Arizona State University.

Economy

The City's major economic sectors are comprised of manufacturing, non-manufacturing, government and commercial activities (including construction and commerce), agriculture and tourism. MEGACorp, formerly the non-profit Mesa Economic Growth Corporation, was established to promote economic development within the City and to lend technical assistance to corporations and businesses seeking a location within the City.

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

UNEMPLOYMENT AVERAGES

Year	United States	State of Arizona	Maricopa County	City of Mesa
2001	4.5%	4.4%	3.5%	3.0%
2000	4.0	3.9	2.6	2.2
1999	4.2	4.4	2.9	2.5
1998	4.5	4.1	2.7	2.3
1997	5.0	4.5	2.9	2.4
1996	5.4	5.5	3.6	3.1

Source: Arizona Department of Economic Security, Bureau of Information and Research Analysis, Labor Force Statistical Unit. Unemployment averages for 2001 represent the period from January through October 2001 only.

Manufacturing and Non-Manufacturing Employment

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

MAJOR MANUFACTURING EMPLOYERS
City of Mesa, Arizona

Employer	Description	Approximate Employment
The Boeing Company	Helicopter Manufacturing and Assembly	5,000
Motorola Semiconductor Products*	Manufacturer of Semiconductors and Integrated Circuits	3,100
TRW/Vehicle Safety Systems, Inc.	Automotive Restraint Systems	3,000
Phoenix Newspapers	Newspaper Publishing	1,000
Special Devices, Inc.	Chemical Airbag Ignitor Components	690
National Computer Systems, Inc.	Computer Hardware and Software	680
The Tribune	Newspaper Publishing	560
Arch Chemicals	Gases for Silicon Companies	400
Talley Defense Systems, Inc.	Dispersion Systems, Munitions, Rocket Loaders, Airbag Components	270
Kovach, Inc.	Roofing Materials	260
Auer Precision Stamping	Automotive and Aerospace Products	180
Design Lighting Products, Inc.	Manufacturer of Lighting Fixtures	130

Source: City of Mesa.
*Motorola officials have announced that the company intends to close three computer chip manufacturing lines at its Mesa location by 2004. Motorola officials have estimated that such closures will result in the loss of approximately 1,650 manufacturing jobs at the Mesa plant.

The following is a partial list of major non-manufacturing employers located within the City.

MAJOR NON-MANUFACTURING EMPLOYERS
City of Mesa, Arizona

Employer	Service	Approximate Employment
Mesa Public Schools	Education	9,300
Banner Health System	Medical	5,800
City of Mesa	Government	3,600
AT&T	Communications	2,400
General Motors Desert Proving Grounds	Vehicle Testing Site	1,400
Empire Machinery	Equipment Distributor	1,100
Excell Agent Services	Communications	1,000
Mesa Community College	Education	950
Brown and Brown Chevrolet	Automobile Dealer	590
Rural Metro Southwest Ambulance	Public Safety	500

Source: City of Mesa.

Williams Gateway Airport

A former source of employment for residents of the City was Williams Air Force Base ("WAFB"), which was located in the City. Pursuant to action taken by the Defense Base Closure and Realignment Commission, WAFB was closed as a Federal installation as of September 30, 1993.

In anticipation of the WAFB closure, the Governor of Arizona in July 1991 established the Williams Air Force Base Economic Reuse Advisory Board (the "Board"). The purpose of the Board was to address the reuse and redevelopment of WAFB so as to minimize the impact of the closure and capitalize on the economic development potential of the 4,000-acre site. In brief, the plan called for the conversion of the former base into a 3,000-acre airport facility and a 900-acre higher education complex. The 100-acre golf course would continue to be operated, as it was.

In March 1994, the new airport reopened as Williams Gateway Airport. The airport has three runways, two of which are over 10,000 feet long, and a full-service tower. The airport has been designated by the State as the primary reliever airport for Phoenix Sky Harbor Airport, and focuses on providing air cargo, aircraft maintenance, air charters and air passenger services. In five years, use of the airport has grown to 195,000 operations annually. Twenty-three aviation companies currently operate at the facility.

In September 1996, Arizona State University East opened its doors at Williams Gateway Airport. Chandler-Gilbert Community College, Embry Riddle University and the University of North Dakota have also located facilities at the site. Williams Gateway Airport currently provides educational facilities for over 2,000 students, and has a variety of aviation and education related employers which generate over 2,000 jobs.

Construction

The following tables directly below set forth annual records of building permit values and new housing permits issued within the City for the period 1996-2000.

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

Year	Residential	Commercial	Industrial	Other	Total
2001*	$429,048	$ 78,554	$1,194	$ 88,087	$ 596,883
2000	601,658	219,097	7,516	251,649	1,079,920
1999	630,956	190,168	1,600	208,209	1,030,933
1998	571,396	195,629	3,497	184,209	954,731
1997	374,136	137,649	3,961	157,369	673,115
1996	301,956	128,032	9,226	143,854	583,068

Source: Arizona State University, College of Business, Arizona Real Estate Center. Note that the data is obtained from County and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date on which the permit is issued is not to be construed as the date of construction.

*Represents the period from January through September of 2001 only.

NEW HOUSING PERMITS
City of Mesa, Arizona

Year	Total New Housing Units
2001	4,128*
2000	6,237
1999	5,147
1998	5,679
1997	4,063
1996	3,476

Source: Arizona State University, College of Business, Arizona Real Estate Center. Note that the data is obtained from County and municipal divisions which issue building permits. The date on which the permit is issued is not to be construed as the date of construction.

*Represents the period from January through September of 2001 only.

Retail

The following tables set forth certain information regarding the City's largest retail shopping centers and a recent record of retail sales activity within the City.

LARGEST SHOPPING CENTERS
City of Mesa, Arizona

Shopping Center	Gross Square Foot	Percent Leased	Year Opened
Superstition Springs Center	1,349,809	99.67%	1990
Fiesta Mall	1,222,941	98.36	1979
Mesa Pavilions at Superstition Springs	719,700	99.54	1993
Superstition Springs Power Center	415,211	100.00	1991

Source: City of Mesa.

TAXABLE
RETAIL SALES
City of Mesa, Arizona

Fiscal Year	Retail Sales
2000/01	$ 4,534,561,975*
1999/00	4,901,366,412
1998/99	4,764,059,300
1997/98	4,546,344,338
1996/97	4,300,766,070

Source: City of Mesa.

*The Taxable Retail Sales for fiscal year 2000/01 reflects the elimination of the City's prior sales tax on food consumption. The City estimates that the elimination of such sales tax resulted in a reduction in Taxable Retail Sales for fiscal year 2000/01 of approximately $561,597,000.

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 agricultural sector are livestock 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
Sheraton Mesa Hotel	273
Hilton Pavilion Hotel	263
Holiday Inn Mesa	246
Dobson Ranch Inn	213
Arizona Golf Resort	186
Marriott Courtyard	149
Country Inn and Suites	126
La Quinta (West)	125
Residence Inn	117
La Quinta (East)	107

Source: Mesa Convention and Visitors Bureau.

The City owns and operates the Mesa Community Center (the "Community Center") which offers convention facilities. The Community Center is situated on a 22-acre site adjacent to the Sheraton Mesa Hotel. The Community 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.

Outdoor recreational attractions within close proximity to the City include the Apache Trail scenic drive (State Routes 60, 88 and 89), the Superstition Mountains, Canyon, Apache and Roosevelt Lakes and several national forests. Major league baseball spring training is a popular tourist attraction. The Chicago Cubs make Hohokam Park in the City their spring training home. In 1996, the City and the County Stadium District financed the construction of a new stadium with a seating capacity of 12,675. Other tourist attractions include a fighter aircraft museum, the

Brinton Botanical Gardens, horseback riding and cultural attractions such as the Mesa Symphony Orchestra, Ballet Folklorico Primavera, the Arizona Mormon Temple and various art exhibits and museums.

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APPENDIX B

CITY OF MESA, ARIZONA

FINANCIAL DATA

Current Year Statistics (For Fiscal Year 2001/02)
City of Mesa, Arizona

Total General Obligation Bonds Outstanding	$ 230,645,000(a)
Total Utility Systems Revenue Bonds Outstanding	358,525,000(b)
Total Street and Highway User Revenue Bonds Outstanding	72,700,000(c)
Total Excise Tax Obligations Outstanding	89,650,000(d)
Primary Assessed Valuation	2,017,791,989(e)
Secondary Assessed Valuation	2,142,980,665(e)
Estimated Full Cash Value	16,462,739,261(f)

(a) Represents all general obligation bonds to be outstanding upon issuance of the Bonds. See "Statements of Bonds Outstanding — General Obligation Bonds to be Outstanding" in this appendix.

The Arizona legislature has enacted statutory provisions, which became effective July 20, 1996, to the effect that, for purposes of constitutional debt limits, outstanding indebtedness equals the principal amount of bonds issued less principal repaid or for which monies have been deposited in a dedicated fund for repayment, exclusive of any premium or discount. The General Obligation Bonds Outstanding set forth above and elsewhere in Appendix B represent bond principal amounts only, and have not been adjusted to include premium.

(b) Represents all utility systems revenue bonds to be outstanding upon 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 upon issuance of the Bonds. See "Statements of Bonds Outstanding — Street and Highway User Revenue Bonds Outstanding" in this appendix.

(d) Represents all senior lien and junior lien excise tax obligations of the City outstanding. See "Statements of Bonds Outstanding — Excise Tax Obligations Outstanding" in this appendix.

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

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

STATEMENTS OF BONDS OUTSTANDING

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding(g)
1991	Refunding	$ 83,310,000	7-1-93/02	$ 15,245,000
1992	Refunding	95,580,000	7-1-93/03	11,260,000
1993	Refunding	34,600,000	7-1-93/03	25,400,000
1995	Various Purpose	20,060,000	7-1-04/10	20,060,000
1997	Various Purpose	24,000,000	7-1-09/11	24,000,000
1998	Various Purpose	30,000,000	7-1-09/18	30,000,000
1998	Refunding	18,100,000	7-1-99/08	17,760,000
1999	Various Purpose	38,500,000	7-1-09/18	38,500,000
2000	Various Purpose	36,500,000	7-1-09/19	36,500,000
2002	Various Purpose	26,575,000	7-1-09/20	26,575,000
Total General Obligation Bonds Outstanding				$ 245,300,000
General Obligation Bonds To Be Refunded				(14,655,000)
Total General Obligation Bonds To Be Outstanding				$ 230,645,000

(g) Excludes $35,000,000 principal amount of the City's General Obligation Bonds, Series 1993 due July 1, 2008, which were refunded by the City's General Obligation Refunding Bonds, Series 1998 and the City's Utility Systems Revenue Refunding Bonds, Series 1998. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America which are held in irrevocable trust by Bank One Trust Company, N.A.

Utility Systems Revenue Bonds to be Outstanding(h)
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding(h)
1995	Refunding	$ 26,400,000	7-1-02/04	$ 26,400,000
1995	Utility Improvements	40,000,000	7-1-11/15	40,000,000
1997	Utility Improvements	94,730,000	7-1-12/17	83,230,000
1998	Refunding	32,500,000	7-1-00/13	32,125,000
1998	Utility Improvements	34,600,000	7-1-09/18	34,600,000
2000	Utility Improvements	69,200,000	7-1-09/19	69,200,000
2002	Utility Improvements	57,950,000	7-1-09/21	57,950,000
Total Utility Systems Revenue Bonds Outstanding				$ 343,505,000
Utility Systems Revenue Bonds To Be Refunded				(113,980,000)
Utility Systems Revenue Refunding Bonds To Be Issued				129,000,000
Total Utility Systems Revenue Bonds To Be Outstanding				$ 358,525,000

(h) Excludes $11,500,000 aggregate principal amount of the City's Utility Systems Revenue Bonds, Series 1997, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 1998. Debt service requirements for such refunded bonds currently outstanding are provided for by obligations issued by the United States Government which are being held in an irrevocable trust account by Bank One Trust Company, N.A.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
1997	Street Improvements	$19,000,000	7-1-09/17	$ 19,000,000
1999	Street Improvements	7,900,000	7-1-09/17	7,900,000
2000	Street Improvements	20,000,000	7-1-10/19	20,000,000
2002	Street Improvements	25,800,000	7-1-10/20	25,800,000
Total Street and Highway User Revenue Bonds Outstanding				$ 72,700,000

Senior Lien Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
1989	Chamber of Commerce Building	$ 600,000	7-1-90/09	$ 340,000
1993*	Municipal Complex	6,545,000	7-1-95/04	2,865,000
1996*	Spring Training Facilities	20,000,000	10-1-08/16	18,575,000
1998	Municipal Facilities	7,300,000	6-1-01/08	6,525,000
2001*	Refunding	20,600,000	1-1-03/08	20,600,000
Total Senior Obligations Outstanding				$ 48,650,000

* Issued by the City of Mesa Municipal Development Corp.

Junior Lien Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2001	Freeway Construction	$ 41,000,000	7-1-03/05	$ 41,000,000

Direct General Obligation Bonded Debt, Legal Limitation
and Unused General Obligation Bonding Capacity (i)
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 to the six percent limitation for general municipal purpose bonds, cities may issue general obligation bonds up to an additional twenty percent of the secondary assessed valuation for supplying such city with water, artificial light or sewers, and for the acquisition and development of land or interests herein for open space preserves, parks, playgrounds and recreational facilities.

General Municipal Purpose Bonds		Water, Light, Sewer, Open Space and Park Bonds	
Total 6% General Obligation Bonding Capacity	$ 128,578,839	Total 20% General Obligation Bonding Capacity	$ 428,596,133
Less 6% General Obligation Bonds Outstanding	(99,480,000)	Less 20% General Obligation Bonds Outstanding	(131,165,000)
Net 6% General Obligation Bonding Capacity	$ 29,098,839	Net 20% General Obligation Bonding Capacity	$ 297,431,133

(i) General obligation bonding capacity is calculated using the City's fiscal year 2001/02 secondary assessed valuation of $2,142,980,665. Includes all general obligation bonds to be outstanding following issuance of the Bonds.

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

Overlapping Jurisdiction	General Obligation Bonded Debt(k)	Proportion Applicable to City of Mesa(j) Approximate Percent	Net Debt Amount
State of Arizona	None	6.22%	None
Maricopa County(l)	$ 58,205,000	9.35	$ 5,442,167
Maricopa County Community College District(m)	305,750,000	9.35	28,587,625
East Valley Institute of Technology District No. 401	22,805,000	21.25	4,846,063
Mesa Unified School District No. 4	261,405,000	84.77	221,593,019
Tempe Elementary School District No. 3	73,885,000	0.57	421,145
Tempe Union High School District No. 213	216,795,000	0.26	563,667
Gilbert Unified School District No. 41(n)	75,045,000	20.25	15,196,612
Queen Creek Unified School District No. 95	16,710,000	33.88	5,661,348
Higley Unified School District No. 60	360,000	2.23	6,690
City of Mesa(o)	230,645,000	100.00	230,645,000
Total Direct and Overlapping General Obligation Bonded Debt Outstanding			$ 512,963,336

(j) Proportion applicable to the City is computed on the ratio of secondary assessed valuation as calculated for fiscal year 2001/02 for the overlapping jurisdiction to the amount of such valuation which lies within the City.

(k) 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
State of Arizona	None
Maricopa County	None
Maricopa County Community College District	$ 4,000
East Valley Institute of Technology District No. 401	None
Mesa Unified School District No. 4	None
Tempe Elementary School District No. 3	None
Tempe Union High School District No. 213	None
Gilbert Unified School District No. 41	None
Queen Creek Unified School District No. 95	None
Higley Unified School District No. 60	None
City of Mesa	114,708,000

Also does not include the obligation of the Central Arizona Water Conservation District ("CAWCD") to the United States of America, Department of the Interior, for repayment of capital costs of construction of the Central Arizona Water Project ("CAP"), a major reclamation project that has been substantially completed by the Bureau of Reclamation to deliver Colorado River water to central Arizona and Tucson. The United States and CAWCD recently announced an agreement 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 for amounts paid by CAWCD to the United States against such obligations and costs. Under the agreement, CAWDC's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.65 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 665,224 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 the CAP at no additional cost to CAWCD. Of the $1.65 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be fixed for the entire 50 year repayment period, which commenced October 1, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and will require certain State of Arizona and federal legislation. If the conditions are not met within three years, the parties could extend such deadline or the agreement will terminate and either party may petition U.S. District Court to resume litigation. It is not possible to predict whether the agreement will be effective or if the litigation will be resumed or the outcome of any such litigation. CAWCD is a water conservation district having boundaries coterminous with the exterior boundaries of Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of CAP and to assist in the repayment to the United States of the capital costs of CAP. 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 in the CAWCD. At the date of this Official Statement, the tax levy is limited to $0.1300 per $100 of secondary assessed valuation, all of which is being levied. 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 Flood Control District's sole source of revenue to pay the contribution will be ad valorem taxes.

(l) Does not include Maricopa County certificates of participation outstanding in the aggregate principal amount of $150,255,000.

(m) Does not include Maricopa County Community College District revenue bonds outstanding in the aggregate principal amount of $12,295,000.

(n) Does not include Gilbert Unified School District No. 41 certificates of participation outstanding in the aggregate principal amount of $42,430,000.

(o) Does not include the City's utility systems revenue bonds to be outstanding in the aggregate principal amount of $358,525,000.

Does not include the City's street and highway user revenue bonds outstanding in the aggregate principal amount of $72,700,000.

Does not include City of Mesa senior and junior lien excise tax obligations outstanding in the aggregate principal amount of $89,650,000. Such obligations are secured and payable from the City's transaction privilege tax revenues and certain other general fund revenues.

Does not include the City's Certificates of Participation, Series 1999 outstanding in the principal amount of $11,550,000.

Does not include various City special assessment bonds outstanding in the aggregate principal amount of $329,000.

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

	Per Capita Bonded Debt Population Estimated @ 420,525(q)	As a Percentage of City's 2001/02 Secondary Assessed Valuation	2001/02 Estimated Full Cash Value
Direct General Obligation Bonded Debt	$ 548.47	10.76%	1.40%
Direct and Overlapping General Obligation Bonded Debt	$ 1,219.82	23.94%	3.12%

(p) Includes all general obligation bonds to be outstanding following issuance of the Bonds.

(q) Provided by the City.

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 Financial Statements For The Year Ended June 30, 2001, contained in Appendix D of this Official Statement.

ASSESSED VALUATIONS AND TAX RATES

The City has operated without a property tax since fiscal year 1944/45. Arizona property taxes are divided into two systems, primary and secondary. Secondary property taxes are those taxes imposed for payment of bonded indebtedness, for exceeding a budget, expenditure or tax limitation pursuant to voter approval and for operating and maintaining certain special districts. Primary property taxes are all ad valorem taxes other than secondary property taxes.

Under the primary system, the full cash value of locally-assessed real property (consisting of residential, commercial, industrial, agricultural and unimproved property) cannot increase by more than 10% per year, except under certain circumstances. This limitation does not apply to mines, utilities and railroads which are assessed by the State. Annual tax levies under the primary system are based on the nature of the property taxed and the taxing authority. Primary taxes levied on residential property only are limited to 1% of the full cash value of such property. In addition, primary taxes levied on all types of property by counties, cities, towns and community college districts are limited to a maximum increase of 2% over the prior year's levy plus any amount directly attributable to new construction and annexation. The 2% limitation does not apply to primary taxes levied for local school districts.

Secondary assessed valuation represents the value used in determining property tax levies for the payment of principal and interest on general obligation bonds, and the calculation of maximum bonded indebtedness allowed under the State's Constitutional debt limit. Under the secondary system, there is no limitation on annual increases in full cash value of any property, except for the Property Valuaton Protection Option discussed in this appendix under the heading “Property Taxes”. In addition, annual tax levies for voter-approved bonded indebtedness and special district taxes are unlimited.

Additionally, all property, both real and personal, is assigned a classification to determine its assessed valuation for tax purposes. Each legal classification is defined by property use and has an assessment ratio (a percentage factor) which is multiplied by the limited or full cash values of the property to obtain the assessed valuations.

The assessment ratios utilized over the five-year period, 1997 through 2001, for each class are set forth below:

PROPERTY TAX ASSESSMENT RATIOS
Tax Years 1996 through 2000

Property Classification	1997	1998	1999	2000	2001
Mining(r)	27%	26%	25%	25%	25%
Utility(r)	27	26	25	25	25
Commercial and Industrial(s)	25	25	25	25	25
Agriculture and Vacant Land(s)	16	16	16	16	16
Owner Occupied Residential	10	10	10	10	10
Leased or Rented Residential	10	10	10	10	10
Railroad, Private Car Company and Airline Fight Property(t)	23	22	21	21	21

(r) For tax year 2000, and thereafter, mining and utility properties are included in the same legal property class as commercial and industrial properties.

(s) For tax year 2001, the first $53,266 of full cash value for commercial, industrial and agricultural personal property is exempt from property taxes. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of those amounts will be assessed at 25% or 16% as applicable.

(t) This percentage is determined annually to be equal to the ratio of (i) the total assessed valuation of all mining, utility, commercial, industrial and military reuse zone properties, agricultural personal property and certain leasehold personal property to (ii) the total full cash (market) value of such properties.

Set forth in the table below is a record of direct and overlapping assessed valuations and tax rates for fiscal year 2001/02.

Direct and Overlapping Assessed Valuations and Total Tax Rates
Per $100 Assessed Valuation

Overlapping Jurisdiction	2001/02 Secondary Assessed Valuation	2001/02 Primary Assessed Valuation	2001/02 Total Tax Rates Per $100 Assessed Valuation
State of Arizona	$ 34,468,574,240	$ 32,518,431,391	None
Maricopa County	22,913,134,480	21,355,326,477	$ 1.7682
Maricopa County Community College District	22,913,134,480	21,355,326,477	1.1107
Maricopa County Library District(u)	22,913,134,480	N/A	0.0421
Maricopa County Flood Control District(u)	19,544,068,975	N/A	0.2319
Maricopa County Fire District Annual Levy(u)	22,913,134,480	N/A	0.0091
Central Arizona Water Conservation District(u)	22,913,134,480	N/A	0.1300
East Valley Institute of Technology District No. 401(u)	10,225,502,945	N/A	0.1120
Mesa Unified School District No. 4	2,253,511,186	2,127,162,252	7.5427
Tempe Elementary School District No. 3	1,187,761,186	1,114,677,792	4.4079
Tempe Union High School District No. 213	2,583,880,322	2,447,231,622	3.1976
Gilbert Unified School District No. 41	862,701,304	816,149,642	8.7408
Queen Creek Unified School District No. 95	69,273,860	60,534,292	7.6031
Higley Unified School District No. 60	57,271,160	48,702,874	7.6570
City of Mesa	2,142,980,665	2,017,791,989	None

Source: Maricopa County Finance Department.

(u) The assessed valuation of the Flood Control District does not include the personal property assessed valuation within the County. The secondary assessed valuation for the Central Arizona Water Conservation District reflects the assessed valuation located within Maricopa County only. The County is mandated to levy a tax annually in support of County fire districts. All levies for library districts, hospital districts, fire districts, technology districts, water conservation districts and flood control districts are levied on the secondary assessed valuation.

Combined Total Tax Rates Per $100 Assessed Valuation

Inside Mesa Unified School District No. 4	$ 10.9467
Inside Tempe Union High School District No. 213 and Tempe Elementary School District No. 3	$ 11.0095
Inside Gilbert Unified School District No. 41	$ 12.1448
Inside Queen Creek Unified School District No. 95	$ 11.0071
Inside Higley Unified School District No. 60	$ 11.0610

Source: Maricopa County Finance Department.

Secondary Assessed Valuation By Property Classification
City of Mesa, Arizona

Set forth below is a breakdown of the City's secondary assessed valuation by property classification for the most recent five years such information is available.

Class	2001/02 Secondary Assessed Valuation	2000/01 Secondary Assessed Valuation	1999/00 Secondary Assessed Valuation	1998/99 Secondary Assessed Valuation	1997/98 Secondary Assessed Valuation
Utilities	*	$ 1,184,934	$ 13,551,865	$ 13,671,745	$ 14,232,961
Commercial and Industrial	$ 761,307,126	730,721,548	647,840,395	584,206,734	544,269,114
Agricultural and Vacant	121,736,098	108,388,755	81,828,460	68,550,196	70,206,230
Residential (owner occupied)	1,027,872,158	864,113,258	781,719,181	704,823,800	684,400,231
Residential (rental)	231,565,673	215,103,671	201,527,510	169,783,400	157,237,186
Railroad	380,309	359,020	366,682	397,070	401,112
Historic	119,301	43,840	13,921	13,130	16,527
Possessory Interests	0	800	800	57,300	51,125
	$2,142,980,665	$1,919,915,826	$ 1,726,848,814	$ 1,541,503,375	$ 1,470,814,486

Source: *State and County Abstract of the Assessment Role*, State of Arizona, Department of Revenue.
*Utilities property value for fiscal year 2001/02 is included in the Commercial and Industrial total.

Comparative Secondary Assessed Valuation Histories

Fiscal Year	City of Mesa	Maricopa County	State of Arizona
2001/02	$ 2,142,980,665	$ 22,913,134,480	$ 34,468,574,240
2000/01	1,919,915,826	20,877,715,546	31,837,411,782
1999/00	1,726,848,814	18,676,830,848	28,998,567,633
1998/99	1,541,503,375	16,813,017,261	26,793,103,121
1997/98	1,470,814,486	15,723,498,194	25,377,388,011

Source: The Arizona Property Tax Research Foundation, *Property Tax Rates and Assessed Values.*

Estimated Full Cash Value(v)
City of Mesa, Arizona

Fiscal Year	Estimated Full Cash Value
2001/02	$ 16,462,739,261
2000/01	15,666,595,457
1999/00	14,005,169,514
1998/99	12,596,871,395
1997/98	10,799,407,424

(v)The City's estimated full cash value approximates the total market value of all taxable property located within the City, less the estimated exempt property within the City as calculated by the State of Arizona Department of Revenue, Division of Property and Special Taxes.

Assessed Valuation of Major Taxpayers
City of Mesa, Arizona

Taxpayer	2001/02 Secondary Assessed Valuation	As % of City's 2001/02 Total Secondary Assessed Valuation
U.S. West Communications	$ 30,919,147	1.44%
Motorola, Inc.*	28,591,135	1.33
AT&T	25,384,273	1.19
Boeing-McDonnell Douglas	21,248,347	.99
TRW Vehicle Safety Systems	13,171,765	.62
East Mesa Land Partnership	10,164,591	.47
Fiesta Mall	9,617,410	.45
Vestar Arizona LLC	9,259,300	.43
Wal-Mart Stores, Inc.	8,175,840	.38
Cox Communications	7,678,093	.36
Total	$ 164,209,901	7.66%

Source: Maricopa County Treasurer's Office. The City has not made an independent determination of the financial position of any of the City's major property taxpayers.

*Motorola officials have announced that the company intends to close three computer chip manufacturing lines at its Mesa location by 2004. Such closures do not constitute a complete closure of the Mesa facility, and the exact impact of such closures on the City’s secondary assessed valuation is unknown.

PROPERTY TAXES

Tax Years

The Arizona tax year has been defined as the calendar year notwithstanding the fact that tax procedures, as explained below, begin prior to January 1 of the tax year and continue through May of the succeeding calendar year. The tax lien attaches to the real property as of January 1 of the tax year in question. Because the City has not levied a property tax since fiscal year 1944/45, the following is presented to describe the effect of overlapping property taxes upon property in the City.

Ad Valorem Taxes

The State has two different valuation bases for levying ad valorem property taxes. They are “limited property” and “full cash” values. Property valuations are established on most property by the individual county assessors, with the State Department of Revenue determining the valuations of centrally assessed properties such as gas, water and electric utilities, pipelines, mines, local and long distance telephone companies and airline flight property. All property within the State, whether real or personal, is subject to property taxation unless specifically exempted by law.

Full cash value is statutorily defined to mean “that value determined as prescribed by statute” or if no statutory method is prescribed it is “synonymous with market value.” “Market value” means that estimate of value that is derived annually by use of standard appraisal methods and techniques, which generally include the market approach, the cost approach and the income approach. As a general matter, the various county assessors use a cost approach for commercial/industrial property and a sales data approach for residential property. Arizona law allows taxpayers to appeal the county assessor’s valuations by providing evidence of a lower value, which may be based upon another valuation approach.

On November 7, 2000, Arizona voters approved Proposition 104 which provides for a property valuation "freeze" for certain residential property owners sixty-five years of age and older. Owners of residential property may obtain such freeze against valuation increases (the "Property Valuation Protection Option") if the owners total income from all sources does not exceed 400% (500% for two or more owners of the same property) of the "Social Security Income Benefit Rate" (currently the benefit rate is $6,144.00). Hence, the current qualifying level is $24,576.00 for single owners and $30,720.00 for residential property owned by two or more persons. The Property Valuation Protection Option must be renewed every three years. If the property is sold to a person who does not qualify, the valuation reverts to its current full cash value. Any freeze on increases in full cash value will, as a result freeze the secondary assessed value of the affected property as hereinafter described.

Additionally, all property, both real and personal, is assigned a classification to determine its assessed valuation for tax purposes. Each legal classification is defined by property use and has an assessment ratio (a percentage factor) which is multiplied by the limited or full cash values of the property to obtain the primary or secondary assessed valuations, respectively.

Primary Taxes

Taxes levied against the assessed limited property value (after application of the assessment ratio) are referred to as primary taxes, which are used for the maintenance and operation of counties, cities/towns, school districts, community college districts and the State. Limited property value cannot exceed the full cash value and is derived statutorily using one of the following two procedures:

1. The limited property value for parcels in existence in the prior year that did not undergo modification through construction, destruction, split or change in use, are established at the previous year's limited property value increased by the greater of either 10% of last year's limited property value or 25% of the difference between the prior year's limited property value and the current year's full cash value.

2. The limited property value for parcels that underwent modification through construction, destruction or change in use, and for new parcels, is established by applying a ratio of the full cash to limited property values of existing properties of the same use or legal classification.

The aggregate of the primary taxes levied by a county, city, town and community college district is constitutionally limited to a maximum increase of 2% over the prior year's levy limit plus any taxes on property not subject to tax in the proceeding year (e.g., new construction and property brought into the jurisdiction because of annexation). The 2% limitation does not apply to primary taxes levied on behalf of school districts. The limited and full cash values of personal property (other than mobile homes) and for utility, mining and producing oil, gas and geothermal property are the same. Primary taxes on residential property only are constitutionally limited to one percent of the full cash value of such property.

To offset the effects of the primary system limitation of tax levies on residential property to one percent of the primary full cash value, a tax equalization program was instituted, whereby the State will provide funds to qualifying local school districts in an amount up to 35% of such district's primary tax levy requirement as applied to residential property, not to exceed $500 per individual residential property. These funds are derived from appropriations from the State General Fund. This program also requires the counties to levy a tax of $0.4974 per $100 of assessed value under the primary system to supplement the State equalization funds provided to local school districts in the County. In addition, if the State's equalization contribution does not reduce the aggregate tax levy on residential properties in the districts for primary purposes to one percent of the primary full cash value, the State will contribute additional funds to the extent necessary for this purpose.

The limited property value is also subject to the Property Valuation Protection Option described above.

Secondary Taxes

Taxes levied against the assessed full cash value (after application of the assessment ratio) are referred to as secondary taxes, which are used for debt retirement (i.e., debt service on bonds), voter-approved budget overrides and the maintenance and operation of special service districts such as sanitary, fire and road improvement districts. Except for the Property Valuation Protection Option described above, there is no limitation on the annual increases in full cash value of any property, and annual levies for voter-approved bond indebtedness and special district assessments are unlimited.

Tax Procedures

The board of supervisors of the county prepares the tax roll which sets forth the valuation by taxing district of all property in the county subject to taxation. This tax roll also shows the valuation and classification of each parcel of land located within the county for the tax year. The tax roll is then forwarded to the treasurer of the county.

With the various budgetary procedures having been completed by the governmental entities, the appropriate tax rate for each jurisdiction is then applied to each parcel of property in order to determine the total tax owned by each property owner.

Beginning with the 1997 tax year, county assessors have been given more time to value property. In addition, the board of supervisors of the county will prepare and adopt the final tax roll showing the valuation and classification of each parcel of land located within the county no later than December 31 of each year for use in setting levy rates in the next fiscal year. For tax years 1995 and 1996 assessors used a transitional system of valuation and appeal.

Delinquent Tax Procedures

Any property taxes are billed in September of the calendar tax year and are due and payable in two installments on October 1 and March 1 of the following year and become delinquent on November 1 and May 1 of the following year. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month. (However, delinquent interest is waived if a taxpayer, delinquent as to the November 1 payment, pays the entire year's tax bill by December 31.) After the close of the tax collection period, the Treasurer of the County prepares a delinquent property tax list and the property so listed is subject to a tax lien sale in February of the succeeding year. In the event that there is no purchaser for the tax lien at the sale, the tax lien is assigned to the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption for an amount sufficient to cover all delinquent taxes.

After three years from the sale of the tax lien, the tax lien certificate holder may bring an action in a court of competent jurisdiction to foreclose the right of redemption and, if the delinquent taxes plus accrued interest are not paid by the owner of record or any entity having a right to redeem, a judgement is entered ordering the Treasurer of the County to deliver a Treasurer's Deed to the certificate holder as prescribed by law.

It should be noted that in the event of bankruptcy of a taxpayer pursuant to the United States Bankruptcy Code (the "Bankruptcy Code"), the law is currently unsettled as to whether a lien can attach against the taxpayer's property for property taxes levied during the pendency of bankruptcy. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on property of a taxpayer. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on delinquent property.

When a debtor files or is forced into bankruptcy, and any act to obtain possession of the debtor's estate, any act to create or perfect any lien against the property of the debtor or any act to collect, assess or recover a claim against the debtor that arose before the commencement of the bankruptcy would be stayed pursuant to the Bankruptcy Code. While the stay of a bankruptcy court may not prevent the sale of tax liens against the real property of a bankrupt taxpayer, the judicial or administrative foreclosure of a tax lien against the real property of a debtor would be subject to the stay of bankruptcy court. It is reasonable to conclude that "tax sale investors" may be reluctant to purchase tax liens under such circumstances, and, therefore, the timeliness of post bankruptcy petition tax collections becomes uncertain.

Neither the City, the County or the Underwriters, nor their respective attorneys, agents or consultants have undertaken any independent investigation of the operations and financial condition of any taxpayer, nor have they assumed responsibility for the same.

Example of Real and Secured Property Taxes Levied and Collected (w)
Mesa Unified School District No. 4 of Maricopa County, Arizona

The City has operated without a property tax levy since fiscal year 1944/45. The table below sets forth the recent property tax collection experience of a municipal jurisdiction which significantly overlaps the City in regard to property subject to the levy of ad valorem taxes. Approximately 84.77% of the secondary assessed valuation of Mesa Unified School District No. 4 lies within the City, according to the Maricopa County Assessor's records for fiscal year 2001/02. The secured property tax collection information below demonstrates only the recent property tax collection experience of Mesa Unified School District No. 4.

	Mesa Unified School District No. 4		Collected to 6-30 of Initial Fiscal Year		Cumulative Collection July 31, 2001	
Fiscal Year	Tax Rate	Property Tax Levy	Amount	% of Levy	Amount	% of Levy
2000/01	$ 7.5543	$138,811,056	$133,974,362	96.52%	$135,661,535	97.73%
1999/00	7.4601	124,802,141	120,305,957	96.40	124,245,422	99.55
1998/99	7.7105	117,705,709	113,373,119	96.32	116,941,932	99.35
1997/98	7.6380	111,345,514	108,930,136	97.83	110,539,238	99.27
1996/97	7.2956	98,409,637	94,728,283	96.26	97,814,057	99.39

Source: *Maricopa County Treasurer's Office.*

(w) Taxes are certified and collected by the Maricopa County Treasurer. Taxes in support of debt service are levied by the Maricopa County Board of Supervisors as required by Arizona Revised Statutes. Delinquent taxes are subject to an interest and penalty charge of 16% per annum, which is prorated at a monthly rate of 1.33%. Interest and penalty collections for delinquent taxes are not included in the collection figures above, but are deposited in the County General Fund.

APPENDIX C

CITY OF MESA, ARIZONA

UTILITY SYSTEMS INFORMATION

APPENDIX C

CITY OF MESA, ARIZONA

UTILITY SYSTEMS INFORMATION

The following are brief descriptions of the City's electric system, natural gas system, water system, wastewater system and solid waste system.

Electric System

The City has operated its own electric utility since 1917. The electric utility service area covers approximately six square miles. The service area is the heart of the City and approximates the City limits in 1954. The electric system currently serves approximately 13,300 residential customers and approximately 2,600 commercial customers, with a total of approximately 15,900 customers. There are no industrial customers in the service area of the City's electric system.

The City has entered into the Resource Management Services ("RMS") Agreement with the Western Area Power Administration ("Western") of the United States Department of Energy. Other parties to the agreement are Electrical District No. 2 in Coolidge, Arizona ("ED-2") and the Town of Fredonia, Arizona. Also, the City, along with the Arizona Electric Power Cooperative ("AEPCO") and Electrical District No. 2 in Coolidge ("ED-2"), are the three members of the Arizona Power Pooling Association, Inc. ("APPA"). The contracts for power with Western Area Power Administration and Public Service of New Mexico ("PNM") are integrated contracts jointly held by the APPA. The City's electric system has a variety of sources for purchasing the power and energy to serve its customers. The RMS Agreement provides for the scheduling of the power and energy into the Rogers Substation for the City.

Set forth below is a listing of the City's existing electric power supply resources.

Electric Power Resources	Expiration Dates	Contract Amount (Megawatts) Summer	Winter
Western Area Power Administration (1):			
Parker-Davis Project	2008	10.5	8.0
Colorado River Storage Project	2024	4.6	3.3
Arizona Electric Power Cooperative (2):			
Long-Term Agreement	2008	15.0	15.0
Evergreen Agreement	2003	17.5	17.5
Public Service of New Mexico (3)	2008	2.0	2.0
Arizona Power Authority (4)	2017	Subject to Availability	
Enron Power Marketing, Inc. (5)	2012/13	50.0	20.0

(1) The long-term contracts with Western provide power from the Parker-Davis Project ("P-PD") and the Colorado River Storage Project ("CRSP"). The P-PD contract is a 20-year contract which became effective March 1, 1988. The CRSP contract expires on September 30, 2024.

(2) The City and AEPCO have entered into an 18-year firm power sale agreement for demand with associated energy for the period of January 1990 through December 2008. The Evergreen agreement went into effect in 1982, and AEPCO has notified the City that the Evergreen agreement will terminate as of May 2003.

(3) The City, through APPA, negotiated an integrated power sales agreement with PNM to provide electric energy for APPA members beginning in June 1991 and expiring on December 31, 2008.

(4) The City's contract with the Arizona Power Authority is a withdrawable contract depending upon the availability of power in excess of that utilized for the Central Arizona Project and Central Arizona Water Conservation District, with an expiration date of September 30, 2017.

(5) The City and Enron Power Marketing, Inc. ("Enron") entered into a firm power purchase and sale agreement in September of 2001 consisting of a base load product for 20 Megawatts and two summer peaking products for an additional 30 Megawatts. The base load portion of the contract commences in June of 2003 and

expires in May of 2013. The two summer peaking products commence in May of 2002 and expire in September of 2012. Due to the recent bankruptcy filing by Enron, Inc., Enron's ability to fulfill the terms of its contractual obligations with the City pursuant to such contracts cannot be determined at this time. The City has retained counsel in regard to this matter and believes Enron will either gain bankruptcy court approval to assign its contract with the City to another provider, or the City will seek proposals from other energy providers in the event Enron is unable to perform.

The City completed construction of its own electric generating facility in late 2001. This facility is capable of generating up to 12.0 megawatts of electricity from 16 natural gas powered generators recently acquired by the City. The addition of this generating facility is expected to stabilize the City's cost of supplying peak demand power to its customers. The generating facility is expected to generate approximately 12,000 megawatt-hours of energy during the fiscal year ending June 30, 2002.

Delivery of power to the City is through the Rogers Substation, of which the City, Western and SRP are joint owners. Transmission service into the substation is provided through SRP's Thunderstone line, Western's two Pinnacle Peak lines, and Western's Coolidge transmission line. The City has three 69 kilovolt ("kV") lines out of the Rogers Substation providing service into its service area. The 69,000 volt transmission loop is approximately 7.5 miles in length and the City has a total of approximately 14 miles of 69kV transmission lines.

The distribution of the power in the service area of the City's electric system is through 14 substations and the associated distribution lines. There are approximately 90 miles of overhead primary lines and approximately 115 miles of underground primary lines that distribute power to the distribution transformers.

See "Electrical Utility Industry Deregulation" herein for a general discussion of such matters and the circumstances of the City's electric system relative to deregulation.

The tables below contain various information in regard to the City's electric system.

Schedule of Current Electric System Fees and Charges

Description of Electric Services	Fee/Charge*
Residential Electric Service	
Monthly Bill Per Meter	
May/October	
Customer Charge	$ 5.60
Energy Charge	
KWH First 1200 KWH	.0840
KWH All Additional	.0810
November/April	
Customer Charge	5.60
Energy Charge	
KWH First 800 KWH	.0673
KWH All Additional	.0464
Minimum	5.60
Commercial Electric Service	
Monthly Bill Per Meter	
May/October	
Customer Charge	$ 6.10
Service Charge	
KW First 220 KW Over 10 KW	2.90
KW All Additional KW	1.35
Energy Charge	
KWH First 4,000 KWH	.0873
KWH Next 125 KWH/KW of Billing Demand, or if No Billing Demand, All Additional KWH	.0800
KWH Next 50,000 KWH	.0588
KWH All Additional	.0485
November/April	6.10
Customer Charge	
Service Charge	
KW First 220 KW Over 10 KW	2.45
KW All Additional KW	1.15
Energy Charge	
KWH First 4000 KWH	.0734
KWH Next 125 KWH/KW of Billing Demand, or if No Billing Demand, All Additional KWH	.0637
KWH Next 50,000 KWH	.0498
KWH All Additional	.0452
Minimum	6.10

Source: City of Mesa Finance Department. 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.

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

Schedule of Electric System Rate Increases (1997-2001)

Date	Rate Increase
September 1, 2001	None
September 1, 2000	None
September 2, 1999	None
July 1, 1998	None
August 1, 1997	None

Source: City of Mesa Finance Department.

Schedule of Electric System Customers
(Fiscal Years 1996/97 through 2000/01)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2000/01	13,322	2,364	215	15,901
1999/00	13,358	2,380	211	15,949
1998/99	13,144	2,341	195	15,680
1997/98	13,112	2,321	196	15,629
1996/97	13,066	2,284	192	15,542

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

Schedule of the 10 Largest Electric System Customers

Electric System Customer	2000/01 Electric System Fees/Charges
Mesa Public Schools	$ 852,679
Mesa Cold Storage, Inc.	387,888
Mesa Tribune	347,501
Southwest Supermarkets	298,110
Mesa Sheraton Hotel	285,942
Qwest/Mountain Bell	263,031
Arizona Temple	192,025
Bashas Supermarkets	190,770
Taylor Bros. Dist. Co.	163,481
Grand Court Mesa	143,905
Total	$ 3,125,333
Total as a Percent of Total 2000/01 Electric System Operating Revenue	11.23%

Source: City of Mesa Finance Department.

Natural Gas System

According to the American Public Gas Association, the City currently has the 16th largest publicly owned natural gas system in the United States. The City's natural gas service area encompasses approximately 90 square miles within the City's total 125 square mile area. Southwest Gas Company serves the remainder of the City's natural gas customers. The City's natural gas service area currently has over 880 miles of natural gas distribution mains, approximately 34,000 residential customers and approximately 2,500 commercial customers.

The City currently purchases its natural gas supplies from Coral Energy Resources, LP under an agreement that extends to February 28, 2002. The City is currently seeking proposals from energy providers for the provision of natural gas pursuant to a long-term, firm supply agreement. The City has a transportation contract under which all natural gas is transported to one of three City gate stations through El Paso Natural Gas Company's pipeline. This agreement currently allows the City to transport up to 30,000 dekatherms per day. The peak day during 2001 required approximately 21,000 dekatherms.

The facilities and distribution infrastructure necessary to provide service to the majority of the natural gas service area has been constructed. Continuing growth of the City in the east and southeast service area will require the extension of high pressure mains to developing residential and commercial areas.

The City is making a dedicated effort to promote the use of natural gas by its residents. A program has been implemented whereby new and existing purchasers of gas appliances receive a cash rebate from the City. Also, new gas customers are provided with free hook-up if a minimum of two gas appliances are used. Developers of single family housing within the City receive from the City an incentive payment of $500 per residential unit payable toward the construction of interior natural gas piping.

The following tables contain various information in regard to the City's natural gas system.

Schedule of Current Natural Gas System Fees and Charges

Description of Natural Gas Services	Fee/Charge
Residential Gas Service	
May 1st thru October 31st	
Service Charge	$6.60
First 25 Therms	$.4563/therm
All Additional Therms	$.1478/therm
November 1st thru April 30th	
Service Charge	$8.60
First 25 Therms	$.4563/therm
All Additional Therms	$.3362/therm
General Gas Service	
May 1st thru October 31st	
Service Charge	$19.81
First 1200 Therms	$.3603/therm
All Additional Therms	$.2161/therm
November 1st thru April 30th	
Service Charge	$26.43
First 1200 Therms	$.3903/therm
All Additional Therms	$.3123/therm

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

Schedule of Natural Gas System Customers
(Fiscal Years 1996/97 through 2000/01)

Fiscal Year	Residential Customers	Commercial Customers	Total Customers
2000/01	34,023	2,462	36,485
1999/00	32,048	2,381	34,429
1998/99	29,767	2,271	32,038
1997/98	27,449	2,232	29,681
1996/97	24,972	2,200	27,172

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

Schedule of Natural Gas System Rate Increases (1997-2001)

Date	Rate Increase
September 1, 2001	6.00%
September 1, 2000	3.00
September 2, 1999	7.13
July 1, 1998	None
August 1, 1997	3.20

Schedule of the 10 Largest Natural Gas System Customers

Natural Gas System Customer	2000/01 Natural Gas System Fees/Charges
Motorola, Inc.*	$ 2,715,870
Mesa Public Schools	584,969
Empire Southwest	476,310
Desert Samaritan Hospital	472,281
TRW	369,718
Valley/Mesa Lutheran Hospitals	307,315
Boeing	260,402
Far Pavilions, Inc.	92,803
Casa Mesa Estates	74,975
Mesa Sheraton Hotel	72,930
Total	$ 5,427,574
Total as a Percent of Total 2000/01 Natural Gas System Operating Revenue	17.44%

Source: City of Mesa Finance Department.

*In August 2001, Motorola officials announced that the company intends to close three computer chip-making manufacturing lines located at its Mesa plant by 2004. This does not constitute a complete closure of this facility, and the exact impact such closures will have on the City's utility systems is unknown. The estimated impact of the Motorola facility on the City's fiscal year 2000/01 natural gas system net revenue was approximately $543,174.

Water System

The water utility system of the City currently serves a population of 420,000 residing within a 125 square mile area. The water system currently consists of approximately 122,000 residential and commercial connections.

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

The City has 20 storage facilities in the water system service area, seven ground-set reservoirs and nine elevated steel storage tanks capable of storing 85 million gallons. As of July 2001, the City had approximately 1,758 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 190 million gallons per day ("mgd"). The peak day during 2001 required approximately 127 mgd.

Surface water from the Salt and Verde Rivers is treated at the Val Vista Water Treatment Plant. The plant is jointly owned by the City and the City of Phoenix. Currently, the plant has a treatment capacity of 220 mgd, of which Mesa owns 90 mgd. The plant produces approximately 53% 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. This plant is designed to treat a maximum of 96 mgd. It currently has a 48 mgd capacity and produces approximately 36% of the City's water.

Ground water wells produce the remaining 11% of the water used in the City. The City currently has 36 groundwater wells with a pumping capacity of approximately 52 mgd. The City has also purchased over 12,000 acres of land located in Pinal County for a water farm. The continued development of new wells and the water farm provide water supplies for future growth, in case of drought, and as a backup to the surface system. The percentage of City water from groundwater wells has been reduced from approximately 56% in 1980 to approximately 11% currently.

The City is actively involved in promoting water conservation. As public education plays a large role in conservation, the City makes available a wide range of free materials, participates in community and business sponsored events, maintains a speakers bureau, and sponsors a youth education program. The City also provides water audits to help residential and commercial customers assess their water usage. The City has instituted a rebate program for low water use landscaping, and has incorporated an inverted block rate structure to encourage water conservation.

The following tables contain various information in regard to the City's water system.

Schedule of Current Water System Fees and Charges

Description of Water System Services	Fee/Charge
Monthly Minimum Bill — All Classes	
All Zones	
¾ Inch	$ 8.32
1 Inch	9.93
1 ½ Inch	15.88
2 Inches	22.39
3 Inches	49.27
4 Inches	80.98
6 Inches	159.65
8 Inches	238.86
10 Inches	325.39

Monthly Volume Charge	Fee/Charge
Residential	
First 12,000 Gallons of Water	$1.60/1,000 gallons
Additional Usage	$2.40/1,000 gallons

Source: City of Mesa Finance 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 (1997-2001)

Date	Rate Increase
September 1, 2001	4.00%
September 1, 2000	3.00
September 2, 1999	5.00
July 1, 1998	None
August 1, 1997	5.30

Source: City of Mesa Finance Department.

Schedule Of Water System Customers (Fiscal Years 1996/97 through 2000/01)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Total Customers
2000/01	108,686	8,544	4,426	121,626
1999/00	104,400	8,122	4,307	116,829
1998/99	99,699	7,681	4,294	111,674
1997/98	94,995	7,208	4,242	106,445
1996/97	90,840	6,877	4,192	101,909

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

Schedule Of The 10 Largest Water System Customers

Water System Customer	2000/01 Water System Fees/Charges
Mesa Public Schools	$ 1,012,433
Motorola, Inc.*	421,530
Gilbert Public Schools	272,191
Desert Samaritan Hospital	175,046
TRW	161,110
Valley/Mesa Lutheran Hospitals	149,187
Boeing	141,295
Fiesta Mall	87,847
Lawrence Semiconductor	86,972
Mountain View Memorial Gardens	84,199
Total	$ 2,591,811
Total as a Percent of Total 2000/01 Water System Operating Revenue	4.01%

Source: City of Mesa Finance Department.

*In August 2001, Motorola officials announced that the company intends to close three computer chip-making manufacturing lines located at its Mesa plant by 2004. This does not constitute a complete closure of this facility, and the exact impact such closures will have on the City's utility systems is unknown. The estimated impact of the Motorola facility on the City's fiscal year 2000/01 water system net revenue was approximately $227,626.

Wastewater System

The City's gravity wastewater collection system currently serves approximately 104,000 residential and commercial connections. Wastewater treatment service is provided by two wastewater reclamation plants ("WWRP") and one wastewater treatment plant ("WWTP"). The Phoenix-operated 91st Avenue WWTP, which is jointly used by the City and other nearby municipalities, currently has a 162 mgd capacity. The City's portion of that amount is approximately 30 mgd.

The City owns and operates two wastewater reclamation plants. The Northwest WWRP currently has an 8 mgd capacity with an ultimate capacity of 30 mgd. This plant is currently being expanded to 18 mgd. In addition to the current recharge basins, it will also have sludge processing capabilities. The Northwest WWRP currently recharges approximately 7,200 acre-feet of water annually. The sludge currently is piped to the 91st Avenue WWTP. The Southeast WWRP has been expanded from a 4 mgd to an 8 mgd capacity. The ultimate capacity of the plant is 16 mgd. It also sends its sludge to the 91st Avenue WWTP.

As of July 1, 2001, the City had approximately 1,311 miles of sewer mains, 18 lift stations, 9 sulfide stations, and 3 metering stations as part of its wastewater collection system. In addition, the City is part owner in the Baseline/Southern interceptors, and the Salt River Outfall interceptor mains that transport sludge and wastewater to the 91st Avenue WWTP. The City is currently in the process of updating its 1996 wastewater system master plan.

The City's wastewater system and current agreements allow for a treatment capacity of approximately 46 mgd. The peak day during calendar year 2000 was approximately 41.5 mgd.

The following tables contain various information in regard to the City's wastewater system.

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	$5.37
User Charge Component	$1.67
+ User Charge Component (average winter water consumption)	$.71/1,000 gallons
+ Capital Related Component (average winter water consumption in excess of 5,000 gallons)	$1.34/1,000 gallons
General Commercial Sewer Service — Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$5.61
User Charge Component	$1.67
+ User Charge Component (all water used)	$.71/1,000 gallons
+ Capital Related Component (all water used in excess of 5,000 gallons)	$1.34/1,000 gallons
Multi-Unit Dwelling Sewer Service — Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$5.61
User Charge Component	$1.67
+ User Charge Component (all water used)	$.71/1,000 gallons
+ Capital Related Component (all water used in excess of 5,000 gallons)	$1.34/1,000 gallons
Industrial Sewer Service — Inside City	
Monthly Bill	
Capital Component	
Flow (in excess of 5,000 gallons)	$1.305/1,000 gallons
BOD (in excess of lbs. contributed in first 5,000 gallons)	$.107/pound
SS (in excess of lbs. contributed in first 5,000 gallons)	$.087/pound
User Charge Component	
Flow	$.373/1,000 gallons
BOD	$.190/pound
SS	$.113/pound
Minimum — Capital Component (includes use of 5,000 gallons)	$6.83
User Charge Billing Component	$1.67

Source: City of Mesa Finance 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 (1997-2001)

Date	Rate Increase
September 1, 2001	4.00%
September 1, 2000	3.00
September 2, 1999	5.00
July 1, 1998	None
August 1, 1997	5.10

Source: City of Mesa Finance Department.

Schedule of Wastewater System Customers
(Fiscal Years 1996/97 through 2000/01)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Industrial Customers	Other Customers	Total Customers
2000/01	95,051	4,314	4,283	22	29	103,699
1999/00	90,394	4,141	4,095	22	31	98,683
1998/99	85,038	4,003	4,022	22	29	93,114
1997/98	80,682	3,878	3,936	22	28	88,546
1996/97	77,275	3,741	3,902	24	32	84,974

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

Schedule of the 10 Largest Wastewater System Customers

Wastewater System Customer	2000/01 Wastewater System Fees/Charges
Motorola, Inc.*	$ 2,265,682
Mesa Public Schools	467,605
TRW	167,788
Valley/Mesa Lutheran Hospitals	152,684
Desert Samaritan Hospital	149,809
Superstition Springs Center	147,898
Boeing	135,833
Gilbert Public Schools	115,925
Lawrence Semiconductor	93,397
Fiesta Mall	84,218
Total	$ 3,780,840
Total as a Percent of Total 2000/01 Wastewater System Operating Revenue	9.71%

Source: City of Mesa Finance Department.

*In August 2001, Motorola officials announced that the company intends to close three computer chip-making manufacturing lines located at its Mesa plant by 2004. This does not constitute a complete closure of this facility, and the exact impact such closures will have on the City's utility systems is unknown. The estimated impact of the Motorola facility on the City's fiscal year 2000/01 wastewater system net revenue was approximately $1,427,380.

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 over 99,000 customers. The City's solid waste system is also the exclusive provider of solid waste collection services to apartment complexes using automated frontloader trucks. The City currently has 700 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 45% 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 27% diversion rate in materials going to landfills is expected from these programs, saving the City considerable expense.

In October 1998, the City extended its agreement through the year 2008 for use of the Salt River-Pima Maricopa Indian Community's landfill located directly west of the City across the Salt River. This landfill is a designed facility that meets all Federal Subtitle D requirements.

The following tables contain various information in regard to the City's solid waste system.

Schedule of Current Solid Waste System Fees and Charges

Residential Solid Waste System Monthly Billing

Rate R1.2: $16.75 per unit for single dwelling units, duplexes, triplexes and fourplexes when water account is active, for once per week residential solid waste collection and once per week recycling collection.

$15.25 per unit for single dwelling units when water account is active, for once per week residential solid waste collection and once per week recycling collection (60 gallon garbage barrel).

Rate R1.21: $7.00 per each additional 60/90 gallon solid waste container collected on same day as first solid waste container.

Rate R1.22: $28.00 per each additional 300/400 gallon refuse container collected on same day as first solid waste container.

Rate R1.23: $20.00 per unit in addition to the above R1.2 rate for twice per week solid waste collection.

Rate R1.24: $12.40 per unit for multi-unit dwellings with 5 to 20 units when water account is active, for once per week solid waste collection and once per week recycling collection (previously R1.3).

Rate R1.25: $8.00 per unit in addition to the above R1.24 rate for twice per week solid waste collection.

Rate R1.26: $16.75 per unit for duplexes, triplexes and fourplexes when the water account is active for metal bin service.

Rate R1.28: $3.50 per each additional 90 gallon green waste container collected once per week.

A $10.00 fee will be assessed per each service call to collect normal volumes of bundled or properly prepared bulk items.

Commercial Solid Waste System Monthly Billing

Rate R3.8: $16.75 for the first 90 gallon container for once per week solid waste collection and once per week recycling collection.

Rate R3.84: $61.00 per 300/440 gallon container for once per week solid waste collection and once per week recycling collection.

$28.00 per each additional 300/440 gallon container for once per week solid waste collection on same geographical zone as first barrel.

Rate R3.85: $40.00 in addition to R3.84 for twice per week solid waste collection.

A portion of these rates will be used to fund recycling programs and hazardous waste collection activities.

Source: City of Mesa 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 (1997-2001)

Date	Rate Increase
July 5, 2001	5.15%
September 1, 2000	3.30
September 2, 1999	None
July 1, 1998	None
August 1, 1997	7.00

Source: City of Mesa Finance Department.

Schedule of Solid Waste System Customers
(Fiscal Years 1996/97 through 2000/01)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2000/01	99,035	1,988	154	101,177
1999/00	94,076	1,981	436	96,493
1998/99	86,000	1,950	250	88,200
1997/98	81,100	1,900	250	83,250
1996/97	76,500	1,700	225	78,425

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

Schedule of the 10 Largest Solid Waste System Customers

Solid Waste System Customer	2000/01 Solid Waste System Fees and Charges
Boeing	$ 88,281
Wal Mart Stores, Inc	87,565
Country Club Village MHP	85,028
Desert Samaritan Hospital.	57,007
Monte Vista Village Resort	49,473
Las Palmas Ltd.	38,559
Circle K/The Ecology Group	36,867
Palmas Park, Inc.	35,741
Arizona Communities Ltd.	32,054
Mark Mobile Home Park	25,754
Total	$ 536,329
Total as a Percent of Total 2000/01 Solid Waste System Operating Revenue	2.02%

Source: City of Mesa Finance Department.

Billing and Collection Procedures

The City bills its utility customers in cycles throughout the month with each customer being billed at approximately the same time every month. Electric, gas and water accounts are based on meter readings, wastewater charges are based on winter 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 83 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 of less than four-tenths of one percent during the past four fiscal years.

APPENDIX D

CITY OF MESA, ARIZONA

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2001

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.

Deloitte & Touche LLP
Suite 1200
2901 North Central Avenue
Phoenix, Arizona 85012-2799
USA

Tel: (602) 234 5100
Fax: (602) 234 5186
www.us.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of the City Council
City of Mesa
Mesa, Arizona

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of the City of Mesa, Arizona, as of June 30, 2001, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the City of Mesa, Arizona. Our responsibility is to express an opinion 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 general purpose 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the City of Mesa, Arizona, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund and account group financial statements of the City of Mesa, Arizona, present fairly, in all material respects, the financial position of each of the individual funds and account groups as of June 30, 2001, and the results of operations of such funds and the cash flows of individual proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements and on the combining and individual fund and account group financial statements taken as a whole. The accompanying financial information listed as supplemental schedules in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Mesa, Arizona. The supplemental schedules are also the responsibility of the management of the City of Mesa, Arizona. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose, combining, and individual fund and account group financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements of each of the respective individual funds and accounts groups taken as a whole.

The statistical data listed in the Statistical Section of the table of contents are presented for purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Mesa, Arizona. Such additional information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2001 on our consideration of the City of Mesa, Arizona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 12, 2001

CITY OF MESA, ARIZONA

EXHIBIT A-1

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	Governmental Fund Types			
Assets and Other Debits	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**
Assets:				
Cash and Cash Equivalents	$ 60,745,167	$ 17,235,656	$	$ 39,757,301
Investments	15,139,850			
Receivables				
Accounts and Miscellaneous (Net of Allowances)	12,712,914	967		
Accrued Interest	1,276,837	124,006		
Due From Other Governments	11,334,062	5,413,961		
Due From Other Funds				
Inventory				
Prepaid Costs	275,997	3,380		
Deposits	588,675			
Restricted Assets:				
Cash and Cash Equivalents			22,321,291	
Investments			632,000	
Deposits				
Accounts Receivable - Deferred	212,270		212,804	
Accrued Interest Receivable			18,909	
Due from Other Governments			615,168	
Customer Deposits				
Unamortized Bond Issue Costs				
Property, Plant and Equipment (Net of Accumulated Depreciation in Proprietary Fund Types)				
Excess of Cost Over Net Assets Acquired (Net of Amortization)				
Investment in Joint Ventures				
Other Debits:				
Amounts To Be Provided For Retirement of General Long-Term Obligations				
Amount Available For Retirement Of General Long-Term Obligations				
Total Assets and Other Debits	$ 102,285,772	$ 22,777,970	$ 23,800,172	$ 39,757,301

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

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	2001	2000
$ 6,222,096	$ 35,440,155	$ 17,337,507	$	$	$ 176,737,882	$ 78,978,300
2,575,579					17,715,429	70,584,458
18,496,848	977,048				32,187,777	30,626,337
596,320	267,812				2,264,975	2,507,415
14,545,720	15,769				31,309,512	16,107,572
						4,107,000
	3,431,039				3,431,039	3,453,838
485,407	33,118				797,902	671,913
45,000					633,675	1,059,038
49,500,457					71,821,748	54,089,051
1,956,853					2,588,853	8,406,838
4,730,109		64,193			4,794,302	1,907,608
					425,074	940,565
20,134					39,043	74,828
					615,168	664,333
1,944,889					1,944,889	2,202,362
507,479					507,479	600,468
811,270,630	4,800,013		451,427,302		1,267,497,945	1,162,410,441
7,725,788					7,725,788	8,191,875
141,121,465					141,121,465	131,310,209
				271,283,612	271,283,612	224,902,187
				424,423	424,423	386,344
$ 1,061,744,774	$ 44,964,954	$ 17,401,700	$ 451,427,302	$ 271,708,035	$ 2,035,867,980	$ 1,804,182,980

EXHIBIT A-1
(Continued)

	Governmental Fund Types			
Liabilities, Equity and Other Credits	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**
Liabilities:				
Warrants Outstanding	$ 3,006,440	$	$	$
Accounts Payable	10,722,113	5,916,972		5,269,671
Other Accrued Expense				
Due to Other Funds				
Accrued Payroll				
Customer and Defendant Deposits	3,223,962	24,314		
Payable From Restricted Assets:				
Accounts Payable			5,789	
Other Accrued Expense				
Accrued Leases & Notes Interest Payable			498,591	
Accrued Bond Interest Payable			14,663,284	
Deferred Revenue	1,303,311	566,019	212,804	
Revenue Bonds Payable-Current				
G.O. Bonds Payable-Current			5,658,281	
Mun. Dev. Corp. Bonds-Current			875,000	
Special Assessment Bonds-Current			112,000	
Notes Payable-Current				
Deposits and Prepayments				
Capital Leases-Current			1,350,000	
Revenue Bonds Payable, Net of Deferred Loss on Refundings				
General Obligation Bonds Payable				
HURF Bonds Payable				
Municipal Dev. Corp. Bonds Payable				
Special Assessment Bonds Payable With Governmental Commitment				
Notes Payable				
Unamortized Bond Premium				
Capital Leases				
Compensated Absences				
Rebatable Arbitrage				
Total Liabilities	18,255,826	6,507,305	23,375,749	5,269,671
Equity and Other Credits:				
Contributed Capital				
Investment in General Fixed Assets				
Retained Earnings:				
Reserved - Bond Indentures				
Reserved - Water, Wastewater, Solid Waste				
Unreserved				
Fund Balances:				
Reserved-Encumbrances	20,014,528	4,308,732		9,994,676
Reserved-Prepaid Costs	275,997	3,380		
Reserved for Quality of Life Projects	41,556,524			
Reserved-Debt Service			424,423	
Unreserved	22,182,897	11,958,553		24,492,954
Total Equity and Other Credits	84,029,946	16,270,665	424,423	34,487,630
Total Liabilities, Equity and Other Credits	$ 102,285,772	$ 22,777,970	$ 23,800,172	$ 39,757,301

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

Proprietary Fund Types: Enterprise	Proprietary Fund Types: Internal Service	Fiduciary Fund Type: Agency	Account Groups: General Fixed Assets	Account Groups: General Long-Term Obligations	Totals (Memorandum Only): 2001	Totals (Memorandum Only): 2000
$	$	$	$	$	$ 3,006,440	$ 4,707,188
3,874,291	989,333				26,772,380	14,949,223
11,314,474	15,868,710				27,183,184	21,152,017
						4,107,000
		17,216,493			17,216,493	14,860,180
		185,207			3,433,483	3,028,204
441,247					447,036	457,069
3,250,866					3,250,866	3,475,318
14,035					512,626	551,135
10,057,232					24,720,516	13,813,440
					2,082,134	1,977,594
200,000					200,000	175,000
20,079,054					25,737,335	33,615,000
2,200,000					3,075,000	27,345,000
					112,000	610,000
129,484					129,484	122,555
5,792,520					5,792,520	5,970,804
2,698,507					4,048,507	575,000
283,349,606					283,349,606	214,029,140
48,949,330				169,775,670	218,725,000	207,948,901
				46,900,000	46,900,000	26,900,000
22,400,000				21,440,000	43,840,000	22,605,000
				217,000	217,000	329,000
1,355,468					1,355,468	1,484,951
1,077,308					1,077,308	1,334,050
12,154,893				23,888,893	36,043,786	28,202,965
				8,988,080	8,988,080	7,361,893
98,886				498,392	597,278	532,795
429,437,201	16,858,043	17,401,700	-0-	271,708,035	788,813,530	662,220,422
493,828,046	5,678,605				499,506,651	499,313,868
			451,427,302		451,427,302	419,926,404
3,449,159					3,449,159	2,336,034
652,381					652,381	1,863,331
134,377,987	22,428,306				156,806,293	112,390,486
					34,317,936	13,938,976
					279,377	161,791
					41,556,524	35,067,208
					424,423	386,344
					58,634,404	56,578,116
632,307,573	28,106,911	-0-	451,427,302	-0-	1,247,054,450	1,141,962,558
$ 1,061,744,774	$ 44,964,954	$ 17,401,700	$ 451,427,302	$ 271,708,035	$ 2,035,867,980	$ 1,804,182,980

CITY OF MESA, ARIZONA

EXHIBIT A-2

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	2001	2000
Revenues:						
Taxes	$ 104,210,560	$	$	$	$ 104,210,560	$ 106,822,964
Special Assessments			547,069		547,069	538,211
Licenses and Permits	11,311,583	7,219,051			18,530,634	20,966,327
Intergovernmental Revenues	94,168,559	44,347,981	615,168		139,131,708	132,679,952
Charges For Services	8,667,141	455,663			9,122,804	9,260,179
Fines and Forfeitures	8,087,106				8,087,106	6,645,488
Investment Income	6,814,838	954,453	36,389		7,805,680	4,913,109
Miscellaneous Revenues	3,018,224	48,415	375	126,916	3,193,930	4,466,611
Total Revenues	236,278,011	53,025,563	1,199,001	126,916	290,629,491	286,292,841
Expenditures:						
Current:						
General Government	32,158,977				32,158,977	30,495,284
Public Safety	143,663,306				143,663,306	131,414,608
Cultural-Recreational	43,370,223				43,370,223	41,572,154
Community Environment	10,200,330	33,441,530			43,641,860	41,483,266
Capital Outlay	23,340,929	13,643,566		40,356,817	77,341,312	94,405,447
Debt Service:						
Principal Retirement			13,240,354		13,240,354	20,438,129
Interest On Bonds			19,540,548		19,540,548	9,916,833
Interest On Leases			1,320,640		1,320,640	1,348,906
Service Charges			91,344		91,344	83,531
Total Expenditures	252,733,765	47,085,096	34,192,886	40,356,817	374,368,564	371,158,158
Revenues Over (Under) Expenditures	(16,455,754)	5,940,467	(32,993,885)	(40,229,901)	(83,739,073)	(84,865,317)
Other Financing Sources (Uses):						
Proceeds From Bond Sales				56,510,935	56,510,935	19,442,052
Proceeds From Obligations of Capital Leases				2,021,000	2,021,000	15,862,000
Operating Transfers In	55,425,928	5,558,414	33,457,892		94,442,234	84,683,534
Operating Transfers Out	(27,524,150)	(11,894,859)	(425,928)	(309,930)	(40,154,867)	(36,170,532)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 11,446,024	$ (395,978)	$ 38,079	$ 17,992,104	$ 29,080,229	$ (1,048,263)
Fund Balances-Beginning	72,583,922	16,666,643	386,344	16,495,526	106,132,435	107,180,698
Fund Balances-Ending	$ 84,029,946	$ 16,270,665	$ 424,423	$ 34,487,630	$ 135,212,664	$ 106,132,435

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

CITY OF MESA, ARIZONA

EXHIBIT A-3

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
(BUDGET BASIS) GENERAL, SPECIAL REVENUE AND CAPITAL PROJECTS FUND
TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Budget Contingency Allocation	Actual	Variance Favorable (Unfavorable)
GENERAL FUND				
Revenues:				
Taxes	$ 106,505,000	$	$ 103,796,117	$ (2,708,883)
Licenses and Permits	14,335,000		11,319,903	(3,015,097)
Intergovernmental Revenues	101,964,000		95,201,199	(6,762,801)
Charges For Services	10,490,000		8,673,105	(1,816,895)
Fines and Forfeitures	11,886,000		10,406,245	(1,479,755)
Investment Income	3,893,000		6,749,832	2,856,832
Miscellaneous Revenues	3,572,000		3,025,589	(546,411)
Total Revenues	252,645,000	-0-	239,171,990	(13,473,010)
Less: Bad Debts	1,900,000		2,583,405	(683,405)
Total Net Revenues	250,745,000	-0-	236,588,585	(14,156,415)
Expenditures:				
Current:				
General Government	36,458,782		33,596,441	2,862,341
Public Safety	145,222,836		142,954,694	2,268,142
Cultural-Recreational	46,269,421		44,318,128	1,951,293
Community Environment	11,716,787		10,077,700	1,639,087
Capital Outlay	46,279,355		30,081,974	16,197,381
Contingencies	5,473,000			5,473,000
Debt Service:				
Principal Retirement	2,812,262		2,812,262	
Interest/Service Charges on Bonds	12,058,003		9,589,983	2,468,020
Total Expenditures	306,290,446	-0-	273,431,182	32,859,264
Revenues (Under) Expenditures	(55,545,446)	-0-	(36,842,597)	18,702,849
Other Financing Sources (Uses):				
Operating Transfers In	49,150,308		55,000,000	5,849,692
Operating Transfers (Out)	(7,272,879)		(6,143,414)	1,129,465
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(13,668,017)	-0-	12,013,989	25,682,006
Fund Balance-Beginning	28,721,421	-0-	27,195,745	(1,525,676)
(Increase) in Restricted Fund Balance	(5,553,404)	-0-	(16,731,228)	(11,177,824)
Fund Balance-Ending	$ 9,500,000	$ -0-	$ 22,478,506	$ 12,978,506

(Continued)

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

CITY OF MESA, ARIZONA
EXHIBIT A-3 (Continued)
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
(BUDGET BASIS) GENERAL, SPECIAL REVENUE AND CAPITAL PROJECTS FUND
TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Budget Contingency Allocation	Actual	Variance Favorable (Unfavorable)
SPECIAL REVENUE FUNDS				
Revenues:				
Licenses & Permits	$ 8,951,000	$	$ 7,219,051	$ (1,731,949)
Intergovernmental Revenues	45,648,000		44,347,981	(1,300,019)
Charges For Services	383,000		455,663	72,663
Investment Income	508,000		933,353	425,353
Miscellaneous Revenues	18,000		48,415	30,415
Total Revenues	55,508,000	-0-	53,004,463	(2,503,537)
Expenditures:				
Current:				
Community Environment	38,100,659	9,439	33,442,204	4,667,894
Capital Outlay	21,417,300	257,623	13,643,566	8,031,357
Contingencies	5,413,000	(516,720)		4,896,280
Debt Service:				
Principal Retirement	2,846,019		2,846,019	
Interest/Service Charges on Bonds	8,692,413	249,658	9,048,166	(106,095)
Total Expenditures	76,469,391	-0-	58,979,955	17,489,436
Revenues (Under) Expenditures	(20,961,391)	-0-	(5,975,492)	14,985,899
Other Financing Sources:				
Operating Transfers In	5,730,716	-0-	5,558,414	(172,302)
Revenues and Other Sources (Under) Expenditures	(15,230,675)	-0-	(417,078)	14,813,597
Fund Balances-Beginning	19,502,480	-0-	16,687,743	(2,814,737)
Fund Balances-Ending	$ 4,271,805	$ -0-	$ 16,270,665	$ 11,998,860

(Continued)

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

CITY OF MESA, ARIZONA

EXHIBIT A-3 (Continued)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
(BUDGET BASIS) GENERAL, SPECIAL REVENUE AND CAPITAL PROJECTS FUND
TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Budget Contingency Allocation	Actual	Variance Favorable (Unfavorable)
CAPITAL PROJECTS FUNDS				
Revenues:				
Intergovernmental Revenues	$	$	$ 399,533	$ 399,533
Miscellaneous Revenues			2,437,120	2,437,120
Total Revenues	-0-	-0-	2,836,653	2,836,653
Expenditures:				
Capital Outlay	284,959,000		99,505,668	185,453,332
Total Expenditures	284,959,000	-0-	99,505,668	185,453,332
Revenues (Under) Expenditures	(284,959,000)	-0-	(96,669,015)	188,289,985
Other Financing Sources:				
Proceeds From Bond Sales	317,408,353		125,884,148	(191,524,205)
Operating Transfers In	2,973,786		4,436,500	1,462,714
Revenues and Other Sources Over Expenditures	35,423,139	-0-	33,651,633	(1,771,506)
Fund Balances (Deficit)-Beginning	(35,423,139)	-0-	9,298,632	44,721,771
Fund Balances-Ending	$ 0	$ -0-	$ 42,950,265	$ 42,950,265

(Continued)

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

CITY OF MESA, ARIZONA
EXHIBIT A-3 (Concluded)
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
(BUDGET BASIS) GENERAL, SPECIAL REVENUE AND CAPITAL PROJECTS FUND
TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Budget Contingency Allocation	Actual	Variance Favorable (Unfavorable)
RECAP				
Revenues:				
Taxes	$ 106,505,000	$	$ 103,796,117	$ (2,708,883)
Licenses and Permits	23,286,000		18,538,954	(4,747,046)
Intergovernmental Revenues	147,612,000		139,948,713	(7,663,287)
Charges For Services	10,873,000		9,128,768	(1,744,232)
Fines and Forfeitures	11,886,000		10,406,245	(1,479,755)
Investment Income	4,401,000		7,683,185	3,282,185
Miscellaneous Revenues	3,590,000		5,511,124	1,921,124
Total Revenues	308,153,000	-0-	295,013,106	(13,139,894)
Less: Bad Debts	1,900,000		2,583,405	(683,405)
Total Net Revenues	306,253,000	-0-	292,429,701	(13,823,299)
Expenditures:				
Current:				
General Government	36,458,782		33,596,441	2,862,341
Public Safety	145,222,836		142,954,694	2,268,142
Cultural-Recreational	46,269,421		44,318,128	1,951,293
Community Environment	49,817,446	9,439	43,519,904	6,306,981
Capital Outlay	352,655,655	257,623	143,231,208	209,682,070
Contingencies	10,886,000	(516,720)		10,369,280
Debt Service:				
Principal Retirement	5,658,281		5,658,281	
Interest/Service Charges on Bonds	20,750,416	249,658	18,638,149	2,361,925
Total Expenditures	667,718,837	-0-	431,916,805	235,802,032
Revenues (Under) Expenditures	(361,465,837)	-0-	(139,487,104)	221,978,733
Other Financing Sources (Uses):				
Proceeds From Bond Sales	317,408,353		125,884,148	(191,524,205)
Operating Transfers In	57,854,810		64,994,914	7,140,104
Operating Transfers (Out)	(7,272,879)		(6,143,414)	1,129,465
Revenues and Other Sources Over Expenditures and Other Uses	6,524,447	-0-	45,248,544	38,724,097
Fund Balances-Beginning	12,800,762	-0-	53,182,120	40,381,358
(Increase) in Restricted Fund Balance	(5,553,404)	-0-	(17,163,199)	(11,609,795)
Fund Balances-Ending	$ 13,771,805	$ -0-	$ 81,267,465	$ 67,495,660

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

CITY OF MESA, ARIZONA

EXHIBIT A-4

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Operating Revenues:				
Electric Sales	$ 47,417,764	$	$ 47,417,764	$ 27,926,824
Gas Sales	31,693,769		31,693,769	21,752,045
Water Sales	66,133,533		66,133,533	64,669,672
Wastewater Charges	38,802,530		38,802,530	37,314,308
Solid Waste Charges	26,732,441		26,732,441	24,838,532
Airport Fees	1,789,405		1,789,405	1,805,260
Golf Course Fees	2,278,436		2,278,436	2,228,801
Community Center Fees	1,295,735		1,295,735	1,418,009
Charges For Services		18,767,261	18,767,261	17,672,877
Self-Insurance Contributions		18,957,204	18,957,204	16,632,528
Other		179,049	179,049	117,968
Total Operating Revenues	216,143,613	37,903,514	254,047,127	216,376,824
Operating Expenses:				
Electric	29,644,249		29,644,249	18,972,315
Gas	26,010,527		26,010,527	16,153,818
Water	26,358,326		26,358,326	24,398,316
Wastewater	16,717,860		16,717,860	12,373,981
Solid Waste	19,970,942		19,970,942	17,536,887
Airport	1,513,839		1,513,839	1,235,204
Golf Course	2,164,240		2,164,240	1,977,754
Community Center	2,847,925		2,847,925	2,592,588
Warehouse Maintenance & Services		18,987,116	18,987,116	17,702,364
Self-Insurance		18,064,760	18,064,760	17,771,700
Total Operating Expenses	125,227,908	37,051,876	162,279,784	130,714,927
Operating Income Before Depreciation and Amortization	90,915,705	851,638	91,767,343	85,661,897
Depreciation and Amortization	(19,477,678)	(192,297)	(19,669,975)	(18,686,756)
Operating Income	71,438,027	659,341	72,097,368	66,975,141

(Continued)

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

CITY OF MESA, ARIZONA

EXHIBIT A-4 (Continued)

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Other Income (Expense):				
Investment Income	$ 4,036,646	$ 2,093,717	$ 6,130,363	$ 5,416,274
Miscellaneous	214,827		214,827	106,126
Interest Expense:				
Revenue Bonds	(12,124,566)		(12,124,566)	(6,279,414)
General Obligation Bonds	(2,814,786)		(2,814,786)	(3,541,658)
Municipal Development Corporation Bonds	(970,160)		(970,160)	(1,001,218)
Notes Payable	(87,191)		(87,191)	(93,806)
Bond Issuance and Administrative Expense	(198,037)		(198,037)	(182,683)
Equity Interest in Joint Venture Operating Loss	(4,306,489)		(4,306,489)	(3,855,217)
Other Income (Expense), Net	(16,249,756)	2,093,717	(14,156,039)	(9,431,596)
Net Income Before Operating Transfers and Capital Contributions	55,188,271	2,753,058	57,941,329	57,543,545
Capital Contributions	40,664,020		40,664,020	
Operating Transfers In		792,787	792,787	2,100,562
Operating Transfers (Out)	(55,075,333)	(4,821)	(55,080,154)	(50,613,563)
Net Income	40,776,958	3,541,024	44,317,982	9,030,544
Retained Earnings-Beginning	97,702,569	18,887,282	116,589,851	107,559,307
Retained Earnings-Ending	$ 138,479,527	$ 22,428,306	$ 160,907,833	$ 116,589,851

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

CITY OF MESA, ARIZONA

EXHIBIT A-5

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Cash Flows From Operating Activities:				
Cash Received From Customers	$ 196,947,857	$	$ 196,947,857	$ 175,573,949
Cash Received From Users	5,705,299	37,886,221	43,591,520	39,121,085
Cash Payments to Suppliers	(80,114,561)	(27,962,441)	(108,077,002)	(88,534,176)
Cash Payments to Employees	(35,540,007)	(8,877,324)	(44,417,331)	(38,883,412)
Net Cash Provided by Operating Activities	86,998,588	1,046,456	88,045,044	87,277,446
Cash Flows From Noncapital Financing Activities:				
Operating Transfers-In From Other Funds		792,787	792,787	2,100,562
Operating Transfers-Out to Other Funds	(55,075,333)	(4,821)	(55,080,154)	(50,613,563)
Net Cash Provided By (Used For) Noncapital Financing Activities	(55,075,333)	787,966	(54,287,367)	(48,513,001)
Cash Flows From Capital and Related Financing Activities:				
Proceeds From Bond Sales	69,373,214		69,373,214	27,052,973
Proceeds From Capital Leases	14,853,400		14,853,400	
Acquisition and Construction of Capital Assets	(73,958,990)	(610,002)	(74,568,992)	(51,639,158)
Investment in Joint Ventures	(16,940,246)		(16,940,246)	(21,009,361)
Proceeds From Sale of Assets	41,613		41,613	94,152
Principal Paid on Bond and Note Maturities	(22,222,468)		(22,222,468)	(21,090,726)
Interest Paid on Bonds and Notes	(16,992,963)		(16,992,963)	(16,191,431)
Bond Issuance and Administrative Expenses	(105,048)		(105,048)	(90,321)
Capital Contributed by Other Governments	5,385,573		5,385,573	2,573,007
Capital Contributed by Subdividers	13,331,117		13,331,117	13,996,814
Net Cash (Used For) Capital and Related Financing Activities	(27,234,798)	(610,002)	(27,844,800)	(66,304,051)
Cash Flows From Investing Activities:				
Purchase of Investment Securities	(2,575,579)		(2,575,579)	(19,773,935)
Proceeds From Sale and Maturities of Investment Securities	15,196,922	20,000,000	35,196,922	5,910,000
Interest Received on Investments	5,461,752	2,022,047	7,483,799	8,598,039
Net Cash Provided by (Used For) Investing Activities	18,083,095	22,022,047	40,105,142	(5,265,896)
Net Increase (Decrease) in Cash and Cash Equivalents	22,771,552	23,246,467	46,018,019	(32,805,502)
Cash and Cash Equivalents at Beginning of Year	32,951,001	12,193,688	45,144,689	77,950,191
Cash and Cash Equivalents at End of Year	$ 55,722,553	$ 35,440,155	$ 91,162,708	$ 45,144,689

(Continued)

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

CITY OF MESA, ARIZONA

EXHIBIT A-5 (Continued)

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	$ 71,438,027	$ 659,341	$ 72,097,368	$ 66,975,141
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation and Amortization	19,477,678	192,297	19,669,975	18,686,756
Noncash Loss on Disposal of Assets	5,564,701	95,931	5,660,632	593,947
Changes in Assets and Liabilities:				
(Increase) in Receivables	(13,490,457)	(17,293)	(13,507,750)	(1,681,790)
(Increase) Decrease in Inventory		22,799	22,799	(338,201)
(Increase) Decrease in Prepaid Costs	21,818	(30,221)	(8,403)	75,735
Increase in Accounts Payable	1,962,082	132,389	2,094,471	2,288,711
Increase (Decrease) in Other Accrued Expense	6,124,739	(8,787)	6,115,952	2,077,147
(Decrease) in Due to Other Funds	(4,100,000)		(4,100,000)	(1,400,000)
Total Adjustments	15,560,561	387,115	15,947,676	20,302,305
Net Cash Provided by Operating Activities	$ 86,998,588	$ 1,046,456	$ 88,045,044	$ 87,277,446
Noncash Transactions Affecting Financial Position:				
Contributions of Fixed Assets	$ 22,140,113	$	$ 22,140,113	$ 15,543,467
Accretion of Capital Appreciation Bonds	529,651		529,651	499,897
Amortization of Bond Premium	256,742		256,742	258,928
Amortization of Bond Issuance Costs	92,989		92,989	92,362
Amortization of Deferred Revenue-Revenue Bonds	320,467		320,467	269,720
Market Value Adjustment - Investments	190,314	86,345	276,659	221,017

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

The City of Mesa (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 420,525 within an area of approximately 128 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, aquatics, airport, golf courses and community center.

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.

GASB No. 20 requires that governments' proprietary 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. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

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

a. Reporting Entity

The accompanying financial statements include the City and its component unit, the 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 which 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 they are legally separate from the

(Continued)

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 Finance Division.

b. **Jointly Governed Organizations**

Williams Gateway Airport Authority is a nonprofit corporation established and funded by the City of Mesa, the 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 which was closed in September 1993 to become Williams Gateway Airport Authority. The Board of Directors consists of the mayors for the respective municipalities and the governor of the tribal community.

Regional Public Transportation Authority ("RPTA") is a voluntary association of local governments, including 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. 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. **Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by type in the financial statements as follows:

Governmental Funds:

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.

(Continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for and the payment of General Obligation and Special Assessment debt principal, interest and related costs, except the debt service accounted for in the Enterprise Fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Funds:

Enterprise Fund is used to account for operations: a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds:

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

General Fixed Asset Account Group is established to account for all fixed assets of the City other than those accounted for in the Proprietary Funds.

General Long-Term Obligation Account Group is established to account for all long-term obligations of the City except for those accounted for in the Proprietary Funds.

(Continued)

d. **Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital (see Note 3) and retained earnings components. Proprietary Fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recognized when 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. Expenditures are generally recognized when the related fund liability is incurred. An exception to this general rule is interest on long-term debt which is recorded when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the decision to accrue depends on the terms of the arrangement or agreement. Generally, these resources are reflected as revenue at the time of receipt or earlier if they meet the available criterion. Certain grant revenues are recognized based on expenditures recorded.

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. Investment earnings are recorded as earned since they are measurable and available. Changes in the fair value of investments are recognized in revenue at the end of each year. The City also accrues City sales tax by state-shared sales tax, auto lieu and highway user revenues.

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.

Agency Fund assets and liabilities are also accounted for on the modified accrual basis.

(Continued)

The accrual basis of accounting is used by Proprietary Funds whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

e. **Cash and Investments**

At year-end, City cash totaled $3,165,068 of which $223,685 was petty cash. The City's bank deposits were $2,941,383 and the bank balance was $2,025,008. Of the bank balance, $200,003 was covered by federal depository insurance and $1,825,005 was covered by collateral held in the pledging bank's trust department in the City's name.

Statutes authorize the City to invest in 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, 2001, is equal to $1.00.

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. These investments are carried at amortized cost which also represents their value upon withdrawal. The City's investments that are reflected in the financial statements as cash equivalents total $245,394,562.

(Continued)

The City's investments are categorized below to give an indication of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer. All of the City's investments at June 30, 2001 are included in either category 1 or 2 as indicated below.

	Category 1	Category 2	Carrying Value
Investments:			
U.S. Government & Agency Securities	$ 17,715,429	$ 632,000	$ 18,347,429
State and Local Obligations		658,740	658,740
Investments in State Treasurer's Plan 6 Pool			1,298,113
Total Investments as Reported in the Financial Statements			20,304,282
Cash Equivalents:			
Money Market Mutual Funds			24,016,161
Investments in State Treasurer's Local Government Investment Pool			221,378,401
Total Cash Equivalents			245,394,562
Total Investments and Cash Equivalents	$ 17,715,429	$ 1,290,740	$ 265,698,844

(Continued)

Investments are stated at fair value which are based on quoted market prices and cash equivalents are stated at amortized cost. Interest income from investments is recorded as revenue within the fund which 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.

f. **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.

g. **Unbilled Accounts Receivable**

Unbilled utility service receivables are recorded in the year in which the services are provided. At June 30, 2001, unbilled utility service receivables are recorded in the Enterprise Fund as follows:

Electric	$ 2,385,468
Gas	942,877
Water	3,830,035
Wastewater	1,867,486
Solid Waste	1,111,150
	$10,137,016

h. **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Encumbered amounts lapse at year-end; however, encumbrances generally are reappropriated as part of the following year's budget.

(Continued)

i. **Property, Plant and Equipment – General Fixed Assets**

General fixed assets purchased are recorded as expenditures in the General, Capital Projects or Special Revenue Funds at the time of purchase. Such assets are capitalized at cost in the General Fixed Asset Account Group with the exception of certain assets acquired prior to June 30, 1978, which have been valued as described below. Gifts or contributions are recorded in the General Fixed Asset Account Group at fair market value at the time received.

Prior to June 30, 1978, the City did not maintain detailed property cost records of its general fixed 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.

Certain improvements, other than buildings, which are immovable assets of value only to the governmental unit such as roads, bridges, streets and sidewalks, are not recorded in the accounting records. The purpose of stewardship for capital expenditures is satisfied without recording the assets.

No depreciation is provided on general fixed assets. General fixed assets sold or otherwise disposed of are eliminated from the accounts.

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions	Retirements and Transfers (1)	Balance June 30, 2001
Land	$ 65,616,161	$ 7,655,641	$ 894,660	$ 72,377,142
Buildings	90,925,311	21,884,642	441,297	112,368,656
Other Improvements	74,788,286	(284,618)	1,458,333	73,045,335
Machinery and Equipment	89,688,154	9,073,244	17,245,321	81,516,077
Construction in Progress	98,908,492	62,033,844	48,822,244	112,120,092
Total	$ 419,926,404	$ 100,362,753	$ 68,861,855	$ 451,427,302

(1) Includes retirements, transfers and the write-off of equipment items as a result of the change in the capitalization policy. (See Note 2a.)

(Continued)

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

	Construction in Progress	Commitments
Parks, Recreation & Cultural	$ 29,843,129	$ 2,853,713
Public Safety	23,163,464	5,948,862
Downtown/Community Revitalization	27,169,147	8,742,655
CAD System	8,551,296	
Mesa City Plaza Remodel	4,307,672	110,000
Library Expansion	617,705	17,617
Computer Equipment	4,056,346	1,468,659
South Center Complex Remodel	3,570,696	
Utility Building	2,715,533	290,479
Service Center & Transport Bldg. Remodeling	5,883,915	4,080,246
Storm Sewer Retention Basin	19,965	36,596
Miscellaneous	2,221,224	2,172,292
Total	$ 112,120,092	$ 25,721,119

j. **Property, Plant and Equipment – Proprietary Funds**

Property, plant and equipment for the Proprietary Funds are generally stated at cost, with the exception of certain assets acquired prior to June 30, 1978, which have been valued as previously described.

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. 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.

(Continued)

The estimated useful lives are as follows:

Buildings	15-50 Years
Other Improvements	10-50 Years
Machinery and Equipment	03-30 Years

A summary of proprietary fund type fixed assets at June 30, 2001 follows:

	Enterprise	Internal Service
Land	$ 59,349,722	$
Water Rights	5,942,500	
Buildings	29,123,654	1,676,836
Accum. Depr. - Buildings	(10,429,750)	(665,929)
Other Improvements	763,793,825	3,000,010
Accum. Depr. - Other Improve.	(191,166,305)	(855,015)
Machinery and Equipment	28,403,641	705,759
Accum. Depr. - Machinery & Equip.	(20,388,017)	(540,675)
Construction in Progress	146,641,360	1,479,027
Net Property, Plant and Equipment	$ 811,270,630	$ 4,800,013

k. **Excess of Cost Over Net Assets Acquired**

This item represents intangible assets acquired by the City in purchasing water and wastewater companies in past years. The intangible assets include water rights, plant capacity and the stream of revenues expected from present and future customers over the lives of the tangible assets acquired. This intangible asset is amortized using the straight-line method over 30 years. The total of this asset and the accumulated amortization through June 30, 2001 was $13,982,586 and $6,256,798, respectively.

l. **Capitalization of Interest**

For the year ended June 30, 2001, the City capitalized net interest costs of $1,970,902 (interest expense of $3,150,958, reduced by interest income of $1,180,056 in the Enterprise Fund). Total interest expense and income in the Enterprise Fund before capitalization was $19,147,661 and $5,216,702, respectively.

(Continued)

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

The Property and Public Liability, Workers' Compensation and Employee Benefit 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 $2,000,000 per occurrence, for the current policy year under the Property 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 $300,000 liability per occurrence. The current policy went into effect July 2000. The maximum deductible per occurrence prior to this time was $250,000. In the Employee Benefit Fund, the City has excess insurance coverage when total claims exceed 125 percent of the contracted projected claims for the policy year. Additionally, individual excess insurance applies when an individual's claims exceed $150,000 per contract year. There were no changes in insurance coverage during this fiscal year for the Property & Public Liability Fund and the Employee Benefit Fund.

The various funds of the City include, as expenditures, amounts contributed to each of the self-insurance funds during the fiscal year. The Property and Public Liability and the Employee Benefit Self-Insurance Funds establish a liability for actuarially computed estimates for those claims incurred but not yet reported. The claims incurred but not reported in the Workers' Compensation Fund consist of actual claims reported during the first 20 days of July 2001.

There were no settlements in excess of insurance coverage during the past three fiscal years in the Property and Public Liability and the Workers' Compensation Funds. A Stop Loss Receivable of $88,000 was established during the current fiscal year in the Employee Benefit Fund that represents a claim that was paid in excess of the City's self-insurance coverage. The City received $553,843 from its stop loss carrier for fiscal year 1999-2000. There were no settlements in excess of insurance coverage during the fiscal year 1998-99 in this Fund.

(Continued)

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

	Property & Public Liability	Workers' Compensation	Employee Benefit	Total
Unpaid Claims, 7/1/99	$ 6,642,535	$ 6,320,462	$ 1,236,611	$ 14,199,608
Incurred Claims-FY 99-00	1,876,041	4,909,650	9,677,107	16,462,798
Claim Payments-FY 99-00	(1,551,314)	(3,627,578)	(9,606,017)	(14,784,909)
Unpaid Claims, 6/30/00	$ 6,967,262	$ 7,602,534	$ 1,307,701	$ 15,877,497
Incurred Claims-FY 00-01	$ 2,792,812	$ 525,331	$ 11,304,410	$ 14,622,553
Claim Payments-FY 00-01	(2,123,128)	(1,313,794)	(11,194,418)	(14,631,340)
Unpaid Claims, 6/30/01	$ 7,636,946	$ 6,814,071	$ 1,417,693	$ 15,868,710

n. **Compensated Absences**

The current portion of the general government accrued vacation and sick leave benefits payable are shown as a liability in the Payroll Agency Fund, and the remainder is recorded in the General Long-Term Obligation Account Group. Accumulated unpaid vested vacation pay is accrued in the Proprietary Funds as incurred as well as an estimate for sick leave (see Note 11 for additional disclosure of sick leave balances).

o. **Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e.—presentation of prior year totals by fund type) data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain reclassifications have been made to June 30, 2000 financial information to conform with the presentation for June 30, 2001.

p. **Total Columns on Combined Statements – Overview**

Total Columns on Combined Statements – Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flow in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(Continued)

q. **Statements of Cash Flows**

A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, noncapital 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 due to the fact that 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 Agency, Property and Public Liability, Workers' Compensation, and Employee Benefit Self-Insurance. Capital Projects (both General Government and Proprietary) are budgeted as one item (as shown in Exhibit A-3). General Government debt service expenditures are budgeted in the General Fund and Special Revenue Funds. A Budget is established, however, for management purposes for the Employee Benefit Self-Insurance Fund.

(Continued)

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 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. As explained in Note 2, there are certain differences between the basis used for budgetary purposes and that used for reporting in accordance with generally accepted accounting principles.

Budgeted amounts are as originally adopted by the City Council on June 26, 2000.

s. **Contingency Services**

The principal purpose of a contingency is to cover any unforeseen expenditures which 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, 2001 and are made in accordance with State Statutes.

2. ACCOUNTING CHANGES

a. **Capitalization Threshold**

Effective July 1, 2000, the City raised the equipment capitalization threshold from $1,000 to $5,000. This resulted in the write-off of equipment items with a cost less than $5,000 from the fixed asset inventory. This write-off resulted in operating losses in the following funds:

Enterprise Fund:

Electric	$ 71,000
Gas	115,598
Water	164,724
Wastewater	80,393
Solid Waste	401,842
Airport	14,646
Golf Course	62,825
Centennial Center	62,784
Total Enterprise Fund	$973,812

(Continued)

Internal Service Fund:

Fleet Support	$48,735
Printing & Graphics	7,750
Materials & Supply	16,723
Total Internal Service Fund	$73,208

Raising the equipment fixed asset capitalization level from $1,000 to $5,000 effective July 1, 2000, resulted in the write-off of equipment items with a cost less than $5,000 from the funds listed below:

Enterprise:	$ 3,947,636
Internal Service:	304,504
General Government Fixed Assets:	14,768,566
Total	$19,020,706

b. **Sick Leave Benefits**

Effective June 30, 2001, the City included an accrual for sick leave benefits that are expected to be paid out to employees. This accrual resulted in expenditures in the following funds for the fiscal year 2000-01:

Enterprise Fund:

Electric	$ 61,149
Gas	70,818
Water	117,986
Wastewater	56,682
Solid Waste	102,129
Airport	14,268
Golf Course	14,514
Centennial Center	17,733
Total Enterprise Fund	$455,279

Internal Service Fund:

Fleet Support	$ 57,307
Printing & Graphics	4,392
Materials & Supply	11,512
Miscellaneous Services	30,519
Total Internal Service Fund	$103,730

(Continued)

General Fund:

General Government	$ 65,179
Public Safety	358,304
Cultural/Recreational	64,612
Community Environment	41,212
Total General Fund	$529,307

3. REPORTING CHANGES FOR CAPITAL CONTRIBUTIONS

To conform with Statement 33 of the Governmental Accounting Standards Board, the City has changed the method in which it records external capital contributions and grants. These amounts were previously included as contributed capital within the fund equity section on the balance sheet.

Effective July 1, 2000, these amounts are shown on the Combined Statement of Revenues and Changes in Retained Earnings as Capital Contributions in the Proprietary Funds. The effect on net income in the Enterprise Fund for the current year was to increase it by $40,664,020. There is no overall effect on the combined balance sheet other than the shift between contributed capital and retained earnings.

4. BUDGETARY BASIS OF ACCOUNTING

The basic 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 basis which differs from the “GAAP basis”, additional statements of revenues and expenditures have also been presented for the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds to provide a meaningful comparison of actual results to budget on the “budget basis”.

(Continued)

Below is a reconciliation of the fund balance/retained earnings on a "GAAP basis" to the fund balance/retained earnings on a "budget basis" as of June 30, 2001.

	Fund Balances/Retained Earnings				
	General	Debt Service	Capital Projects	Enterprise	Internal Service
GAAP Basis	$ 84,029,946	$ 424,423	$ 34,487,630	$ 138,479,527	$ 22,428,306
Basis Differences:					
Investments Fair Value Adjustment	(140,671)				
Compensated Absences	993,691			2,820,178	606,968
Capitalized Interest				(38,154,344)	
Contractual Commitments				(1,780,894)	
Assets Acquired Before June 30, 1978				(157,578)	
Special Assessments	427,133				
Utility Revenue Accrual				(10,137,016)	
Sales Tax Accrual	(8,693,243)				
Loss On Joint Ventures				1,008,343	
Perspective Differences:					
Proprietary Capital Projects Funds			13,566,507		
Timing Differences:					
Water Rights				(5,942,500)	
Rebatable Arbitrage	(498,393)				
Amortization - Refunding Issue				(1,475,062)	
Reserved For Bond Indentures				(3,449,158)	
Appropriated Retained Earnings/					
Restricted Fund Balance	(53,188,753)			(61,857,391)	(2,552,447)
Interest Earnings in Escrow Account	(1,129,969)				
Debt Service Activities	261,292				
Grants	417,473				
Entity Differences:					
Non-Budgeted Capital Leases			(5,103,872)		
Non-Budgeted Self-Insurance Funds					(20,481,846)
Municipal Development Corporation		(424,423)		(10,797,808)	
Budget Basis	$ 22,478,506	$ -0-	$ 42,950,265	$ 8,556,297	$ 981

(Continued)

Adjustments necessary to convert the results of operations for the year ended June 30, 2001 on the "GAAP basis" to the "budget basis" as follows:

	Revenues and Other Sources Over (Under) Expenditures and Other Uses/Net Income/Loss					
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
GAAP Basis	$ 11,446,024	$ (395,978)	$ 38,079	$ 17,992,104	$ 40,776,958	$ 3,541,024
Basis Differences:						
Investments - Fair Value Adjustment	(386,634)	(21,100)			(190,312)	
Compensated Absences	1,163,348				565,045	128,745
Net-Capitalized Interest Expense					(1,970,933)	
Contractual Commitments					(87,404)	
Special Assessments	(425,553)					
Utility Revenue Accrual					(28,862)	
Sales Tax Accrual	(547,916)					
Perspective Differences:						
Premium on Bonds Sold					(173,214)	
Proprietary Capital Projects Funds				13,181,709		
Timing Differences:						
Water Rights					(3,650,000)	
Rebatable Arbitrage	(58,888)					
Capital Expenditures					(14,663,500)	(610,002)
Depreciation-Amortization					19,454,486	192,297
Investment in Joint Venture					3,201,498	
Accretion - Capital Appreciation Bonds					(8,442,684)	
Loss on Disposal of Assets					5,587,893	95,931
Inventory Increase						22,799
Grants & Contributions	417,473				(24,657,065)	
Bond Principal and Reserves					(15,743,219)	
Amortization of Bond Premiums					(168,403)	
Deferred Revenue and Issuance Costs					303,481	
Interest Earnings in Escrow Account	368,056					
Debt Service Activities	38,079					
Entity Differences:						
Non-Budgeted Capital Leases				2,477,820		
Non-Budgeted Self-Insurance Funds						(3,372,997)
Municipal Development Corporation			(38,079)		(1,793,799)	
Budget Basis	$ 12,013,989	$ (417,078)	$ -0-	$ 33,651,633	$ (1,680,034)	$ (2,203)

(Continued)

5. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, 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. As of June 30, 2001 approximately 735 former employees were eligible for these benefits.

The benefits provided by the group health insurance are the same as those offered to active employees. Retirees may select single or family coverage and are offered three health insurance plans: Participation in the City's self-insurance plan, where 80 percent of the amount of validated claims are reimbursed, or a choice of two health maintenance organization (HMO) plans.

The City's cost for retiree health insurance for the fiscal year ended June 30, 2001 was $2,526,983. This cost represents actual claims paid for retirees under the self-insurance program and premiums paid to HMO and vision care providers; net of contributions received from retirees and retirement systems.

6. RETIREMENT AND PENSION PLANS

All full-time employees of the City are covered by one of three pension plans. The 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 which is a multiple-employer cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System which is an agent multiple-employer plan. In addition, the Mayor and Councilmembers contribute to the State's Elected Officials plan which is also a multiple-employer cost-sharing pension plan.

Arizona State Retirement System:

a. <u>Plan Description</u>

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.

(Continued)

b. **Funding Policy**

Covered employees were required by state statute to contribute 2.66 percent of their salary to the System during fiscal year 2000-01 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, 2001, 2000 and 1999 were $3,003,017, $2,713,413 and $3,049,822, respectively, equal to the required contributions for each year. The City's employees contributed equal amounts to the Plan for the same time period.

Elected Officials Retirement Plan:

a. **Plan Description**

The City's Mayor and Councilmembers participate in the Elected Officials Retirement System ("EORP") a multiple employer, cost-sharing defined benefit pension plan. The Fund Manager of the Public Safety Personnel Retirement System ("PSPRS") is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. EORP provides retirement benefits as well as death and disability benefits. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona, 85014 or by calling 602-255-5575.

b. **Funding Policy**

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7 percent of their annual covered salary. The employer rate for 2000-01 was 10.22 percent. The City's contributions to EORP for the fiscal years ending June 30, 2001, 2000 and 1999 were $13,638, $7,849 and $6,835, respectively, equal to the required contributions for each year. The City's employees contributed $9,341, $5,376 and $5,376 for the same time period.

(Continued)

Public Safety Personnel Retirement System:

a. **Plan Description**

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

b. **Funding Policy**

PSPRS members are required to contribute 7.65 percent of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for 2000-01 was 4.19 percent for fire personnel and 6.74 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)

c. **Annual Pension Cost**

Police personnel contributed $3,391,985 and fire personnel $1,739,877 during fiscal year 2000-01. For 2001, the City's annual pension cost of $2,988,494 for police and $953,963 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return, (b) projected salary increases of 6.5 percent per year compounded annually attributable to inflation and other across-the-board increases, (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 techniques that smooth the effects of short-term volatility in the market value of investments over a 4 year period. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2000 was 20 years.

(Continued)

d. **Three Year Trend Information for PSPRS** (Latest Available Information):

Police

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	$ 3,224,801	100%	$ -0-
1999	3,024,401	100	-0-
2000	3,349,090	100	-0-

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	$ 382,739	100%	$ -0-
1999	735,222	100	-0-
2000	1,103,914	100	-0-

e. **Required Supplementary Information**

Schedule of Funding Progress (Latest Information Available):

POLICE

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
1996	$ 88,796,871	$ 86,487,738	102.7%	$ (2,309,133)	$ 27,244,348	- %
1997	107,257,407	96,853,824	110.7%	(10,403,583)	30,118,564	-
1998	120,765,775	108,157,318	111.7%	(12,608,457)	32,659,519	-
1999	143,165,304	119,519,031	119.8%	(23,646,273)	34,913,388	-
2000	168,065,424	138,558,410	121.3%	(29,507,014)	41,356,041	-

(Continued)

FIRE

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
1996	$ 64,501,566	$ 54,347,247	118.7%	$ (10,154,319)	$ 14,785,955	- %
1997	76,602,958	60,384,792	126.9%	(16,218,166)	15,573,320	-
1998	84,034,496	69,351,133	121.2%	(14,683,363)	17,324,713	-
1999	98,666,741	78,166,154	126.2%	(20,500,587)	19,069,238	-
2000	115,297,435	88,631,745	130.1%	(26,665,690)	20,882,521	-

7. **LONG-TERM OBLIGATIONS**

a. **Changes in Long-Term Obligations**

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

	Bonds	Capital Leases	Compensated Absences	Rebatable Arbitrage	Total
Balances July 1, 2000	$ 189,284,168	$ 28,202,965	$ 7,361,893	$ 439,505	$ 225,288,531
Provision for Rebatable Arbitrage				58,887	58,887
Debt Incurred	56,500,000	2,021,000			58,521,000
Debt Retired	(290,000)	(4,985,072)			(5,275,072)
Amortization of Capital Appreciation Bonds	(516,217)				(516,217)
Transferred to Current Portion	(6,645,281)	(1,350,000)	1,626,187		(6,369,094)
Balances June 30, 2001	$ 238,332,670	$ 23,888,893	$ 8,988,080	$ 498,392	$ 271,708,035

(Continued)

b. **Bonds Payable**

At June 30, 2001, bonds payable consisted of:

	Average Interest Rate	Amount
General Obligation Bonds:		
Limited to 6% of Assessed Valuation	4.48% to 6.04%	$ 86,565,000
Limited to 20% of Assessed Valuation	4.48% to 6.04%	148,925,000
Capital Appreciation Bonds		8,972,335
Total General Obligation Bonds		244,462,335
Municipal Development Corporation Bonds:		
1985 City of Mesa Municipal Development Corporation Bonds-Pinal Land	Variable	24,600,000
1993 City of Mesa Municipal Development Corporation Amended Bonds	4.51%	3,740,000
1996 City of Mesa Municipal Development Corporation Bonds-Spring Training Facility	Variable	18,575,000
Total Municipal Development Corporation Bonds		46,915,000
Utility System Revenue Bonds:		
1995 Utility System Refunding Bonds	5.51%	26,400,000
1995 Utility System Revenue Bonds	5.62%	40,000,000
1997 Utility System Revenue Bonds	5.62%	83,230,000
1998 Utility System Revenue Bonds	4.91%	34,600,000
1998 Utility System Refunding Bonds	4.85%	32,325,000
2000 Utility System Revenue Bonds	5.27%	69,200,000
Deferred Loss On Refunding		(2,205,394)
Total Utility System Revenue Bonds		283,549,606
Highway User Revenue Bonds:		
1997 Highway User Revenue Bonds	5.10%	19,000,000
1999 Highway User Revenue Bonds	5.48%	7,900,000
2000 Highway User Revenue Bonds	5.29%	20,000,000
Total Highway User Revenue Bonds		46,900,000
Special Assessment Bonds:		
Issued 1986 through 1999	6% to 9%	329,000
TOTAL BONDS		$ 622,155,941

Of the total bonds, $26,812,335 is available in cash and investments to service the current principal portion of outstanding bonds.

(Continued)

The following table reflects the annual requirements to amortize all fixed rate debt outstanding as of June 30, 2001:

Fiscal Year Ending June 30	General Obligation	Municipal Development Corporation	Utility System Revenue	Highway User Revenue	Special Assessments	Total
2002	$ 38,416,930	$ 1,036,832	$ 20,010,150	$ 2,486,694	$ 128,695	$ 62,079,301
2003	35,561,855	1,042,020	23,626,900	2,486,694	94,535	62,812,004
2004	9,315,260	1,045,000	28,713,400	2,486,694	90,455	41,650,809
2005	9,310,360		14,146,900	2,486,694	14,535	25,958,489
2006	9,314,047		14,161,525	2,486,694	13,805	25,976,071
2007 and Later	226,393,113		367,056,104	66,556,752	26,160	660,032,129
Total	$ 328,311,565	$ 3,123,852	$ 467,714,979	$ 78,990,222	$ 368,185	$ 878,508,803

Of the total annual requirements, $324,134,803 represents interest payments.

The following is a summary of bond transactions of the City for the fiscal year ended June 30, 2001:

	General Obligation	Municipal Development Corporation	Utility System Revenue	Highway User Revenue	Special Assessments	Total
Bonds Payable at 7/1/00	$ 241,563,901	$ 49,950,000	$ 214,204,140	$ 26,900,000	$ 939,000	$ 533,557,041
New Bonds Issued:						
2000 G.O. Bonds	36,500,000					36,500,000
2000 Utility System Revenue Bonds			69,200,000			69,200,000
2000 Highway User Bonds				20,000,000		20,000,000
Accretion of Capital Appreciation Bonds	529,651					529,651
Amortization of Capital Appreciation Bonds	(516,217)					(516,217)
Amortization of Deferred Loss			320,466			320,466
Bonds Retired	(33,615,000)	(3,035,000)	(175,000)		(610,000)	(37,435,000)
Bonds Payable at 6/30/01	$ 244,462,335	$ 46,915,000	$ 283,549,606	$ 46,900,000	$ 329,000	$ 622,155,941

(Continued)

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 so collected to retire the bonds issued to finance the improvements. At June 30, 2001, 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, 2001 are $329,000.

General Obligation Bonds
The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, $69,028,384 of these bonds at June 30, 2001 are carried as a liability of the Enterprise Fund to reflect the intention of retirement from resources of that fund.

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

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

The total debt margin available July 1, 2001 is:

6% Bonds	$ 42,398,840
20% Bonds	296,051,133
Total Available	$338,449,973

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.

(Continued)

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, 2001, the amount provided in the Replacement and Extension Funds equaled $3,449,158 which is in compliance with the bond provisions.

d. **Notes Payable**

The City has entered into two separate loan agreements 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 5.03 and 6.02 percent.

The following table reflects the annual requirements to amortize all note debt outstanding as of June 30, 2001.

Fiscal Year Ended June 30	Requirement
2002	$ 210,875
2003	210,875
2004	210,875
2005	210,875
2006	210,875
2007 and Later	886,136
Total	$ 1,940,511

Interest payments are represented by $455,560 of the $1,940,511.

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, 2001:

(Continued)

Fiscal Year Ending June 30	Requirement
2002	$ 9,995,094
2003	7,745,280
2004	7,055,517
2005	6,306,721
2006	6,316,736
2007 and Later	7,697,934
Total Minimum Lease Payments	45,117,282
Less: Amount Representing Interest	(6,374,989)
Present Value of the Net Minimum Lease Payments	$ 38,742,293

8. DEMAND BONDS

The City has entered into a lease purchase agreement with the City of Mesa Municipal Development Corporation for the purchase of 12,000 acres of land in Pinal County, Arizona and its associated water rights. The City purchased the land through the issuance of $37,000,000 of variable rate bonds by its Municipal Development Corporation on December 23, 1985. The bonds are remarketed by its remarketing agent, Merrill Lynch Capital Markets, at an annual interest rate necessary to market such bonds at a price equal to 100 percent of the principal amount thereof, not to exceed 15 percent.

The repayment of these bonds, assuming the maximum interest rate of 15 percent, is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2002	$ 2,200,000	$ 3,525,000	$ 5,725,000
2003	2,600,000	3,165,000	5,765,000
2004	2,900,000	2,752,500	5,652,500
2005	3,400,000	2,280,000	5,680,000
2006	3,900,000	1,732,500	5,632,500
2007 and Later	9,600,000	1,485,000	11,085,000
	$ 24,600,000	$ 14,940,000	$ 39,540,000

(Continued)

If the remarketing agent is unable to remarket the bonds, the Municipal Development Corporation has provided a standby purchase agreement through an irrevocable letter of credit issued by the Westdeutsche Landesbank Girozentrale, New York Branch, which will permit the trustee, Texas Commerce Bank, to make drawings thereunder for an amount equal to the principal of the bonds and up to 220 days interest on the outstanding bonds at a rate not to exceed 15 percent per annum.

The annual fee for the letter of credit is .24 percent per annum of the maximum amount available under the agreement. The agreement expires on the earlier of January 31, 2006 or the occurrence of certain specified events. As of June 30, 2001, there were no draws outstanding under this letter of credit. Additionally, there have been no bonds presented for debt service payments on the letter of credit facility.

If the standby financing agreement were to be exercised because the outstanding principal of $24,600,000 could not be remarketed, the maximum debt service requirement would be $26,824,110.

On April 12, 1996, the City entered into a lease purchase agreement with the City of Mesa Municipal Development Corporation for the acquisition, renovation and construction of major league baseball spring training facilities, including a stadium, practice fields and other related improvements. The City, in turn, has entered into a long-term agreement with the Chicago National Ball Club Inc. to provide the spring training facilities for the Chicago Cubs.

The facilities were financed by the City of Mesa Municipal Development Corporation and the Maricopa County Stadium District (the “District”) at a total cost of approximately $27,000,000. The City of Mesa and the District have entered into an Intergovernmental Agreement (the “IGA”) pursuant to which the District has agreed to fund the lesser of two-thirds of the project costs or $17,000,000. The District funded approximately $7,000,000 of its contribution. The remaining $10,000,000 was financed on behalf of the District by the City of Mesa Municipal Development Corporation through the issuance of its Series B 1996 Bonds. Pursuant to the terms of the IGA, the District will, as certain specified revenues become available in the future, repay the City an amount equal to the debt service associated with the Series B 1996 Bonds, plus certain expenses relating thereto. The City’s contribution of $10,000,000 was funded by the issuance of Series A 1996 Bonds by the City of Mesa Municipal Development Corporation. Both the Series A and the Series B Bonds are secured solely by the City’s obligation to make payments under the lease and its pledge of City excise taxes to secure such obligation.

The Series A and Series B Bonds, hereafter referred to as the bonds, are remarketed by its remarketing agent, Merrill Lynch Capital Markets, at an annual interest rate necessary to market such bonds at a price equal to 100 percent of the principal amount thereof, not to exceed 15 percent.

(Continued)

The repayment of these bonds, assuming the maximum interest rate of 15 percent, is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2002	$	$ 2,829,750	$ 2,829,750
2003		2,829,750	2,829,750
2004		2,829,750	2,829,750
2005		2,829,750	2,829,750
2006		2,829,750	2,829,750
2007 and Later	18,575,000	20,494,844	39,069,844
	$ 18,575,000	$ 34,643,594	$ 53,218,594

If the remarketing agent is unable to remarket the bonds, the Municipal Development Corporation has provided a standby purchase agreement through an irrevocable letter of credit issued by the Westdeutsche Landesbank Girozentrale, New York Branch, which will permit the trustee, Texas Commerce Bank, to make drawings thereunder for an amount equal to the principal of the bonds and up to 406 days interest on the outstanding bonds at a rate not to exceed 15 percent per annum.

The annual fee for the letter of credit is .24 percent per annum of the maximum amount available under the agreement. The agreement expires on the earlier of January 31, 2006 or the occurrence of certain specified events. As of June 30, 2001, there were no draws outstanding under this letter of credit. Additionally, there have been no bonds presented for debt service payments on the letter of credit facility.

If the standby financing agreement were to be exercised because the outstanding principal of $18,575,000 could not be remarketed, the maximum debt service requirements would be $21,674,226.

(Continued)

9. 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 which 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, 2001 as reflected below is not included in the City's financial statements.

General Obligation Bond Issue dated August 1, 1991	$ 5,855,000
General Obligation Bond Issue dated April 1, 1993	35,000,000
Utility Systems Revenue Bond Issue dated April 1, 1997	11,500,000
Total Refunded Bonds Outstanding	$ 52,355,000

10. CAPITAL CONTRIBUTIONS

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

	Governmental Agencies	Developers	Total
Federal Grants	$ 2,046,616	$	$ 2,046,616
State Grants	629,223		629,223
Developers - Impact and Development Fees		11,865,272	11,865,272
Developers - Contributions-In-Aid		1,465,844	1,465,844
Contributions - Mains and Lines		21,947,330	21,947,330
Intergovernmental Agreements	2,709,735		2,709,735
Total	$ 5,385,574	$ 35,278,446	$ 40,664,020

In addition, the Enterprise Fund received internal capital contributions of $192,783 that are recorded as an increase in contributed capital.

(Continued)

11. 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 this criteria, a portion of the sick leave has been accrued as a liability in the Payroll Agency Fund for the current general government related portion, and the remainder is recorded in the General Long-Term Obligation Account Group. In addition, an amount of sick pay relating to proprietary funds has been expensed in the appropriate fund and the liability is shown in the Payroll Agency Fund. These amounts have been calculated based on the vested method.

As of June 30, 2001, the sick leave benefit balances, both accrued and unaccrued are as follows:

General Fund	$12,635,351
Enterprise Fund	2,559,431
Internal Service Fund	583,136
	15,779,918
Less: Amounts Accrued as a Liability	2,806,619
	$12,973,299

12. CONDUIT DEBT

In April 2001, the City issued Highway Project Advancement Notes (the Notes) to provide advance funding to accelerate the construction of a portion of Arizona State Route 202 within the City boundaries and to fund the costs associated with the issuance of the Notes.

The City has entered into an intergovernmental agreement with the State that provides for repayment by the State to the City of the full amount from approximately July 2002 to April 2003.

(Continued)

The Notes do not constitute a debt or a charge against the general credit or taxing power of the City. Accordingly, the Notes are not reported as liabilities in the accompanying financial statements.

The City and the State share in the cost of any interest payments resulting from the advance funding for the construction of Arizona State Route 202. This activity is recorded in the General Fund in the accompanying financial statements.

As of June 30, 2001, the outstanding principal amount of the Notes totaled $41,000,000.

13. SEGMENT INFORMATION ENTERPRISE ACTIVITIES

The Enterprise Fund includes operations of electricity, gas, water, wastewater, solid waste, airport, golf course and community center. These services provided by the City of Mesa are financed by user charges and are of such significance as to warrant disclosure as segment functions of the Enterprise Fund. Operating revenue, expenses and operating income for the year ended June 30, 2001 for these services are as follows:

		Operating Expenses		
Functions	**Operating Revenues**	**Depreciation and Amortization**	**Other**	**Operating Income (Loss)**
Electric	$ 28,420,212	$ 1,957,926	$ 21,586,641	$ 4,875,645
Gas	31,693,769	1,455,217	26,010,527	4,228,025
Water	66,133,533	8,806,598	26,379,540	30,947,395
Wastewater	38,802,530	4,953,774	16,717,860	17,130,896
Solid Waste	26,732,441	1,258,160	19,972,920	5,501,361
Airport	1,789,405	562,462	1,513,839	(286,896)
Golf Course	2,278,436	244,480	2,164,240	(130,284)
Community Center	1,295,735	215,869	2,847,925	(1,768,059)
Total	$ 197,146,061	$ 19,454,486	$ 117,193,492	$ 60,498,083

(Continued)

Certain components of the Enterprise Fund are not readily allocable to the respective segments since amounts are accounted for within a single fund. These items are listed below, in total, for all Enterprise functions.

Net Income	$ 40,776,958
Assets	1,061,744,774
Bonds Payable	377,177,990
Fund Equity	632,307,573
Operating Transfers Out	(55,075,333)
Increase in Property, Plant and Equipment-Net	75,557,332

14. DESIGNATED RETAINED EARNINGS

The retained earnings in the Employee Benefit and Workers' Compensation Self Insurance Funds are designated for anticipated future losses and are a result of excess premiums charged to increase the fund balance specifically for this purpose.

The retained earnings in the Property and Public Liability Self-Insurance Fund is the result of management's intention to increase the equity in this fund until such time that it can be self supporting.

15. 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 of Mesa's investment in the joint venture is reflected in the Enterprise Fund financial statements.

(Continued)

The System has no debt outstanding. Unaudited summary financial information on the System (GAAP basis) as of and for the fiscal year ended June 30, 2001 is as follows:

Assets	
Equity in Pooled Cash and Investments	$ 24,192,000
Receivables	12,177,000
Inventories at Average Cost	684,000
Property, Plant and Equipment, Net of Accumulated Depreciation	226,127,000
Construction in Progress	134,787,000
Total Assets	$ 397,967,000
Liabilities and Equity	
Total Liabilities	$ 25,698,000
Total Equity	372,269,000
Total Liabilities and Fund Equity	$ 397,967,000
Total Revenues	$ 82,836,000
Total Expenses	(35,017,000)
Net Increase in Equity	$ 47,819,000

Separate financial statements for the activity under the Joint Venture agreement can be obtained through the AMWUA office at 4041 N. Central Avenue, 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 of Mesa's investment in the joint venture is reflected in the Enterprise Fund financial statements.

(Continued)

The water treatment plant has no debt outstanding. Unaudited summary financial information for the plant (GAAP basis) as of and for the fiscal year ended June, 2001 is as follows:

Assets	
Equity in Pooled Cash and Investments	$ 2,202,000
Receivables	4,465,000
Property, Plant and Equipment, Net of Accumulated Depreciation	141,977,000
Construction in Progress	9,508,000
Total Assets	$ 158,152,000
Liabilities and Equity	
Total Liabilities	$ 4,472,000
Total Equity	153,680,000
Total Liabilities and Fund Equity	$ 158,152,000
Total Revenues	$ 21,657,000
Total Expenses	(14,458,000)
Net Increase in Equity	$ 7,199,000

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

The City is currently in the process of constructing a joint water reclamation plant with the Town of Gilbert. Mesa will act as the lead agency and be responsible for the planning, budgeting, construction, operation and maintenance of the plant. As lead agent, Mesa will provide all management personnel and financing arrangements. Mesa and Gilbert will participate in ownership of the plant and be charged for operating expenses based on gallons of flow. The City of Mesa's investment in the joint venture is reflected in the Enterprise Fund financial statements.

Total construction costs as of June 30, 2001 are:

Mesa's Share	$12,907,917
Gilbert's Share	10,321,535
Total Construction	$23,229,452

(Concluded)

APPENDIX E

SUMMARIES OF THE MASTER RESOLUTION AND THE SUPPLEMENTAL RESOLUTIONS

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 by the Seven Supplemental Resolutions. A summary of the Seventh Supplemental Resolution follows this Summary of the Master Resolution. The Seventh Supplemental Resolution is substantially the same as the other 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 2002 Bonds. 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.

Section 2. Definitions. [*These 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*" – $91,450,000 Utility Systems Revenue and Refunding Bonds, Series 1991; $40,000,000 Utility System Revenue Bonds, Series 1995; $26,400,000 Utility System Revenue Refunding Bonds, Series 1995; $94,730,000 Utility System Revenue Bonds, Series 1997; $34,600,000 Utility Systems Revenue Bonds, Series 1998; $32,500,000 Utility Systems Revenue Refunding Bonds, Series 1998; Utility System Revenue Bonds, Series 2000, $57,950,000 Utility System Revenue Refunding Bonds, Series 2002, 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.

"*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*" shall mean, 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").

Also permitted are 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.

2. Obligations issued or guaranteed by the following instrumentalities or agencies of the United States of America:

(a) Federal Home Loan Bank System;
(b) Export-Import Bank of the United States;
(c) Federal Financing Bank;
(d) Government National Mortgage Association;
(e) Farmers Home Administration;
(f) Federal Home Loan Mortgage Company;
(g) Federal Housing Administration;
(h) Private Export Funding Corporation;
(i) Federal National Mortgage Association; and
(j) 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.

3. Pre-refunded 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.

4. 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.

5. 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.

6. 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.

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

8. 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.

9. 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.

10. 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.

11. 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.

12. 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-1 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.

13. 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.

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

"*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 hereunder.

"*Reserve Fund Value*" - the value of moneys and investments credited to the Reserve Fund plus the aggregate of Reserve Fund Guaranties.

"*Reserve Requirement*" - initially Average Annual Debt Service on the Series 1991 Bonds, adjusted, however, upon the issuance of Parity Bonds to equal the Average Annual Debt Service immediately after such issuance or the maximum amount the Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code.

"*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. [*As amended by the First Supplemental Resolution*].

"*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.

Section 3. Authorization of Bonds; Special Obligations.

A. To provide funds for (i) the acquisition, construction and improvement of the water and water treatment facilities and for other authorized purposes, and (ii) to advance refund the Bonds Being Refunded, there is hereby authorized to be issued and sold $91,450,000 principal amount of the Series 1991 Bonds. [*Section 3 of 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 hereof. The Net Revenues are hereby pledged and assigned as security for the Bonds. All Net Revenues shall be immediately subject to the pledge of this resolution and the lien of this pledge shall be valid and binding. Nothing contained in this section shall limit the authority granted herein to issue Parity Bonds.

Section 7. 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.

Section 9. 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.

Section 10. 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 separate accounts: the Capitalized Reserve Account and the Contributed Reserve Account.

(5) The Rebate Fund.

(6) The Replacement Fund.

(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 (¼) 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 (1/6) 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 (1/10) and commencing July 10, 1992, one-twelfth (1/12) 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 (1/12) of such Policy Costs in the Reimbursement Fund shall be used only to pay Policy Costs.

Policy Costs with respect to any Drawdown which 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 this resolution other than (i) acceleration of the Bonds or (ii) remedies adversely affecting the Owner's rights.

All Reserve Fund Guaranties shall be held by the Paying Agent acting as the Owners fiduciary. Reserve Fund Guaranties shall expire no earlier than the final maturity date of the series for which said Guaranty applies.

(3) Reserve Fund. Third, by the tenth (10th) day of each month, to the Reserve Fund 1/96 of the amount required to increase or restore the Reserve Fund Value to the Reserve Requirement within an eight-year period, or the amount required to restore the Reserve Fund to the Reserve Requirement after a Reserve Fund withdrawal.

If, on any principal or interest payment date, a Deficiency exists, then:

(a) If there are investments or cash in the Reserve Fund, such investments shall be liquidated and the cash and investments proceeds transferred to the Bond Fund; and

(b) If the Deficiency is not then cured the Paying Agent shall deliver a Drawdown request to the Reserve Fund Guarantor.

Drawdowns and Reserve Fund proceeds shall be used solely to pay Bond principal and interest then due.

Parity Bond proceedings shall provide for either an additional Reserve Fund Guaranty, a payment of Parity Bond proceeds to the Capitalized Reserve Account or the Contributed Reserve Account shall be increased by deposits sufficient to increase the Reserve Fund Value within eight (8) years from the date of such Parity Bonds' issuance to not less than the Reserve Requirement immediately after issuance of such Parity Bonds.

All Reserve Fund deposits made from Net Revenues shall be deposited to the Contributed Reserve Account. All Bond proceeds deposited to the Reserve Fund shall be deposited in the Capitalized Reserve Account.

(4) Rebate Fund. Fourth, by the 30th day after the last day of each Bond Year, to the Rebate Fund an amount required to equal the current cumulative amount of arbitrage rebate determined to then be owing for the current Bond Year and any undeposited rebate requirement for any previous Bond Years.

(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. Construction Fund. 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 this 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.

Section 12. Covenants Regarding the Operation of the System. The City hereby 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 City-wide 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 (180) 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. This covenant shall not prevent 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 will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any Owner upon request;

G. To the extend allowed by law, will 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 this resolution, will duty 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; and

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 provisions hereof.

L. Not violate the terms of any Agreement and will give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Section 13. Remedies of Owners. Subject to Section 18 hereof, 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 hereby.

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 hereby.

Section 14. Equality of Lien; Prohibition of Future Lien. The Bonds shall each enjoy complete parity of lien on the Net Revenues.

otherwise:

A. Parity Bonds may be issued on a party with the Bonds herein authorized 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 [*as amended by the First Supplemental Resolution*];

(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) The Reserve Fund Value shall be increased at the Council's option, by: (i) the immediate deposit of Parity Bond proceeds or available moneys of the City to the Reserve Fund or the immediate delivery of a Reserve Fund Guaranty to the Paying Agent, or any combination thereof in order for the Reserve Fund Value to equal or exceed the Reserve Requirement immediately after issuance of such Parity Bonds; or (ii) deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th day of each month such that the Reserve Fund Value will equal oar exceed the increased Reserve Requirement not later than the expiration of eight years following the initial delivery of such Parity Bonds; or (iii) any combination of the methods described in clauses (i) and (ii) above in an aggregate amount equal to the increase in the Reserve Requirement resulting from the issuance of such Bonds.

B. 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.

Section 16. Resolution a Contract. The provisions of this 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.

Section 17. Modification of Resolution.

A. Without the consent of or notice to any Owner, this resolution may be modified for one or more of the following purposes:

(1) To cure any ambiguity or informal defect or inconsistency herein.

(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 hereto 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 hereby) 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 contained herein 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. Any other provision on this Section 17 to the contrary notwithstanding, no amendment proposed in accordance with this Section shall become effective until approved by each Reserve Fund Guarantor and each Bond Insurer.

Section 18. 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 hereunder shall continue to exist and such Reserve Fund Guarantor shall be fully subrogated to all of such Owner's rights.

B. For all purposes hereunder, 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. Notwithstanding any provision hereof 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 this resolution pursuant to Sections 13 and 17 hereof.

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. [*Added by First Supplemental Resolution*]

Section 15. 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.

Section 19. 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 12 substantially equal monthly payments.

Section 20. 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 this 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 this resolution or available at the request of Owners and (iv) all reports or certificates prepared by the consulting engineer pursuant to this resolution.

Section 21. 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 this 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 this resolution or any supplemental resolution shall also be provided to any issuer of a Municipal Bond Insurance Policy or Reserve Fund Guarantor.

Section 23. 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 hereunder or secured hereby.

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.

SUMMARY OF EIGHTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Eighth Supplemental Resolution which supplements the Master Resolution, which authorizes the issuance of the Utility System Revenue Refunding Bonds, Series 2002, to be adopted by the Mayor and Council on January 18, 2002. The summary does not purport to be a full statement of the terms of the Eighth Supplemental Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

WHEREAS, on July 29, 1991, the Mayor and Council of the City of Mesa, Arizona (the "City") adopted Resolution No. 6362 (as amended and supplemented, the "Master Resolution") pertaining to the issuance by the City of its Utility System Revenue Bonds; and

WHEREAS, the Mayor and Council have previously adopted seven supplemental resolutions (collectively the “Supplemental Resolutions”) amending and supplementing the Master Resolution; and

WHEREAS, all acts, conditions and things required by the Constitution and the laws of the State of Arizona (the "State") and the requirements of the City to happen, exist and be performed precedent to and in the adoption of the Master Resolution and this Eighth Supplemental Resolution have happened, exist and have been performed as so required in order to make this Eighth Supplemental Resolution and the Master Resolution valid and binding instruments for the security of the Series 2002 Refunding Bonds authorized herein (the "Series 2002 Refunding Bonds").

Section 1. Authority. The Series 2002 Refunding Bonds are hereby 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), this Resolution and other applicable provisions of law. It is hereby determined that all limitations imposed on the City by

A.R.S. § 9-535.01 have been met with respect to the Series 2002 Refunding Bonds. The Master Resolution, as amended and supplemented and this Resolution, shall stay in effect until all Bonds are fully paid or provided for and all Policy Costs shall have been paid in full.

Section 2. Definitions. For purposes of this Resolution, and, except as hereafter amended or added to, all definitions contained in the Master Resolution are hereby incorporated by reference into this Resolution as if herein fully set forth.

Definitions; Interpretation. The following terms shall have the following meanings in the Master Resolution and in this Resolution unless the text expressly or by necessary implication requires otherwise:

"*Bond Registrar for the Series 2002 Refunding Bonds*" – Financial Services Director, City of Mesa, Arizona, or his successor, as bond registrar.

"*Bond Year*," - initially the period from the 'Series 2002 Refunding Bonds' date to July 1, 2002, 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.

"*Underwriter*" - with respect to the Series 2002 Bonds, a syndicate managed by UBS PaineWebber, Incorporated and RBC Dain Rauscher Inc.

"*Reserve Fund Guarantor*" – Financial Guaranty Insurance Company or "FGIC".

"*Series 2002 Insurer*" shall mean Financial Guaranty Insurance Company or "FGIC".

"*Series 2002 Refunding Bonds*" - the not to exceed $150,000,000 Utility Systems Revenue Refunding Bonds, Series 2002.

"*Eighth Supplemental Resolution*" - this Resolution.

Section 3. Authorization of Series 2002 Refunding Bonds; Special Obligations.

A. There is hereby authorized the issuance and sale of not to exceed $150,000,000 City of Mesa, Arizona Utility Systems Revenue Refunding Bonds, Series 2002. The Series 2002 Refunding Bonds issued pursuant to this resolution 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. The Series 2002 Refunding Bonds shall be issued pursuant to A.R.S. § 9-535.01 and the Master Resolution.

B. The Series 2002 Refunding Bonds are special obligations of the City payable solely from the Net Revenues and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms, the Master Resolution, and this Eighth Supplemental Resolution. Subject to the Master Resolution, the Net Revenues are pledged and assigned as security for the payment of the principal and interest on, the Series 2002 Bonds in accordance with their terms, the Master Resolution and the provisions of this Eighth Supplemental Resolution. All Net Revenues shall be immediately subject to the pledge of the Master Resolution, as amended and supplemented and this Eighth 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 hereunder.

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 2002 Bonds on or before the tenth (10th) day of each month.

(1) Commencing February 10, 2002, through June 10, 2002, one-fifth (1/5th) of the amount which, when added to accrued interest received from the Series 2002 Bonds, will be sufficient to pay all interest coming due July 1, 2002 on the Series 2002 Bonds and commencing July 10, 2002 one-sixth (1/6) of the interest coming due on the next interest payment date on all of the Series 2002 Bonds then Outstanding; and

(2) Commencing July 10, 2005*, one-twelfth (1/12th) of the principal becoming due on the next succeeding principal payment date on all Series 2002 Bonds then Outstanding.

Section 4. 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 this 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.

To the extent applicable by provision of law, and to the extent this Eighth Supplemental Resolution constitutes a contract, this Resolution is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, as amended, the provisions of which are incorporated herein as if herein fully set forth.

~~Section 8.~~ **~~Disposition of Series 2002 Refunding Bond Proceeds~~**.

A. The proceeds from the sale of the Series 2002 Refunding Bonds shall, immediately upon closing of the Series 2002 Refunding Bonds, be disposed of as follows: (1) all accrued interest and net original issue premium shall be deposited in the Bond Fund, (2) an amount equal to the costs of issuance to be paid from the proceeds of the Series 2002 Refunding Bonds shall be delivered to the Trustee and used to pay costs of issuance as set forth in the Depository Trust Agreement and (3) the remaining proceeds shall constitute the "Net Proceeds" of the Series 2002 Refunding Bonds as the term is defined in Section 9-535.01, A.R.S., and shall be delivered to the Trustee and invested by the Trustee as directed in the Depository Trust Agreement.

B. The securities in which such Net Proceeds are so invested and any moneys in any existing fund pertaining to the Bonds Being Refunded, shall be held in trust by the Trustee, under the Depository Trust Agreement, as required by Section 9-535.01, A.R.S. The securities in which such proceeds are so invested shall comply in all respects with the requirements of Section 9-535.01, A.R.S. After all Bonds Being Refunded shall have become due and payable through maturity or redemption prior to maturity, any amount in excess of the amount necessary for payment of all Bonds Being Refunded then payable at said final maturity or redemption date, shall be deposited in the Bond Fund.

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* Subject to change

APPENDIX F

FORM OF APPROVING LEGAL OPINION

February __, 2002

MAYOR AND COUNCIL
CITY OF MESA, ARIZONA

Re: City of Mesa, Arizona, Utility Systems Revenue Refunding Bonds, Series 2002

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the "City") of its $____________ aggregate principal amount of Utility Systems Revenue Refunding Bonds, Series 2002, dated February 1, 2002 (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 and Resolution No. ____ 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 the City's Utility Systems Revenue Bonds, Series 1995, Utility Systems Revenue Refunding Bonds, Series 1995, Utility Systems Revenue Bonds, Series 1997, Utility Systems Revenue Refunding Bonds, Series 1998, Utility Systems Revenue Bonds, Series 1998, Utility Systems Revenue Bonds, Series 2000 and Utility Systems Revenue Refunding Bonds, Series 2002; other obligations of the City issued or to be issued under the Resolution and 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 irrevocable 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.

By

Fred H. Rosenfeld
Bond Counsel

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE REFUNDING BONDS
SERIES 2002

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is undertaken by the City of Mesa, Arizona (the "City") in connection with the issuance of the City's Utility Systems Revenue Refunding Bonds, Series 2002 (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 beneficial owners of the Bonds and assists 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.

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

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

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

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Fax: (609) 279-5962
E-mail: *Munis@Bloomberg.com*

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Telephone: (212) 771-6999
Fax: (212) 771-7390
E-mail: *NRMSIR*@FTID.*com*

Standard & Poor's J.J. Kenny Repository
55 Water Street – 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Fax: (212) 438-3975
E-mail: *nrmsir_repository@sandp.com*

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Fax: (201) 947-0107
E-mail: *nrmsir@dpcdata.com*

"*Official Statement*" shall mean the final official statement dated January 10, 2002, 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.

"*Repository*" shall mean each National Repository and each State Repository.

"*Resolution*" shall mean the resolutions authorizing the issuance and sale 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.

"*State Repository*" shall mean any public or private repository or entity designated by the State of Arizona as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause a Dissemination Agent to, not later than February 1 of each year (the "Filing Date"), commencing February 1, 2003, provide to each Repository 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. Should the City's fiscal year change to something other than July 1 to June 30, then the Annual Report will be provided not later than seven (7) months after the end of such fiscal year. Notice of any such change in the City's fiscal year will be filed with each Repository. 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 to the Repositories an Annual Report by the Filing Date required in subsection (a), the City shall promptly send a notice to each Repository 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 the Repositories 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 each Repository 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 name and address of each National Repository and each State Repository, if any; and (if the Dissemination Agent is other than the City)

(ii) 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 all the Repositories to which 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 a 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 each Repository 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 Section 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 Sections of Appendix C of the Official Statement:

(I) The System – Net Revenues
(II) Combined Schedules of Net System Revenues and Debt Service Coverage; and
(III) Statements of Bonded Indebtedness. (See Appendix B of the Official Statement.

(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 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 in this Section 4 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 each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) 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, if material:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
(7) Modifications to rights of bondholders;
(8) Bond calls;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Bonds; and
(11) Rating changes.

(b) Whenever a Listed Event occurs, then the City, if such Listed Event is material, shall promptly file a notice of such occurrence with each Repository; provided, that any event under subsection (a)(1), (8), (9) or (11) will always be deemed to be material.

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 or by an approving vote of the Bondholders pursuant to the terms of the Resolution at the time of the amendment.

Section 9. **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 10. **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 11. **Compliance by 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 12. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Bondholders, and shall create no rights in any other person or entity.

Section 13. **Governing Law and Interpretation of Terms**. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Disclosure Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under the Rule and the federal securities law.

Date: February 7, 2002.

CITY OF MESA, ARIZONA

By ____
Its Financial Services Director

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: Utility Systems Revenue Refunding Bonds, Series 2002
Dated Date of Bonds: February 1, 2002 CUSIP: ________

NOTICE IS HEREBY GIVEN that the City has not provided a Comprehensive Annual Financial Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated February 7, 2002. The Issuer anticipates that the Comprehensive Annual Financial Report will be filed by ____________________.

Dated: _____________________

CITY OF MESA, ARIZONA

By: ______________________________________
Its: ______________________________________

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: Utility Systems Revenue Refunding Bonds, Series 2002
Dated Date of Bonds: February 1, 2002 CUSIP: _______

NOTICE IS HEREBY GIVEN that the City failed to provide its audited financial statements with its Comprehensive Annual Financial Report or, if not available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated February 7, 2002 with respect to the above-named Bonds. The Issuer anticipates that the audited financial statements for the fiscal year ended June 30, ____ will be filed by ______________________.

Dated: ______________________

CITY OF MESA, ARIZONA

By: ______________________________________
Its: ______________________________________

APPENDIX H

SPECIMEN MUNICIPAL BOND NEW ISSUE INSURANCE POLICY

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

APPENDIX I

SPECIMEN MUNICIPAL BOND DEBT SERVICE RESERVE FUND POLICY

Exhibit A

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond Debt Service Reserve Fund Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds: , together with any parity obligations issued under the authorizing document, as amended and supplemented, and secured by the same debt service reserve fund	**Premium:** **Maximum Amount:**
Paying Agent:	**Termination Date:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer. No payment shall be due hereunder for any event of Nonpayment that occurs after the Termination Date set forth above.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond Debt Service Reserve Fund Policy

sufficient funds to the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

SPECIMEN

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer