OFFICIAL STATEMENT DATED MAY 8, 2008

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Moody's: "A1"
Standard & Poor's: "AA-"
INSURED RATINGS: Moody's: "Aaa"
Standard & Poor's: "AAA"
See "RATINGS" herein.

In the opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain restrictions, conditions and requirements by the City, as mentioned under "TAX EXEMPTION" herein, interest income on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of 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 by certain corporations, which income is subject to the alternative minimum tax. See "TAX EXEMPTION" herein.

$52,875,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2008

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

The City of Mesa, Arizona (the "City") Utility Systems Revenue Bonds, Series 2009 (the "Bonds") will be initially issued in book-entry-only form in the name of Cede & Co., as nominee of The Depository Trust Company, a registered securities depository ("DTC"). Beneficial interests in the Bonds will be offered for sale in the amount of $5,000 of principal due on a single maturity date and integral multiples thereof. The Bonds are being issued to provide funds to (i) acquire and construct certain improvements to the City's water, wastewater, and natural gas systems, (ii) pay engineering and other consulting fees incurred in the design of the improvements to the City's utility systems, and (iii) pay costs of issuance of the Bonds.

Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2009, until maturity or redemption prior to maturity, and principal of the Bonds will be payable in accordance with the maturity schedule set forth below. So long as the Bonds are in book-entry-only form, principal of and interest on the Bonds will be paid to DTC for credit to the accounts of the DTC participants and, in turn, to the accounts of the owners of beneficial interests in the Bonds (the "Beneficial Owners"). See APPENDIX F – "Book-Entry-Only System."

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Maturity (July 1)	Principal Amount	Interest Rate	Yield
2023	$ 725,000	5.250%	4.36%	2028	$ 875,000	5.250%	4.62%
2024	875,000	5.250	4.42	2029	1,075,000	5.250	4.66
2025	700,000	5.250	4.47	2030	1,050,000	5.250	4.69*
2026	900,000	5.250	4.52	2031	1,050,000	5.000	4.71*
2027	950,000	5.250	4.57	2032	44,675,000	4.875	4.85*

* Priced to the July 1, 2018 par call.

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

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of its water, electrical, natural gas, wastewater and solid waste systems (collectively, the "System") after provision has been made for payment of the reasonable and necessary costs of the operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), and on a parity of lien on such Net Revenues with the Parity Bonds (as defined herein), now outstanding and hereafter issued. **The Bonds are not general obligations of the City and neither constitute an indebtedness of the City when computing its limit imposed by constitutional, statutory or charter provisions or a charge against the general credit or taxing power of the City nor a liability of the City for payment of the Bonds other than from the Net Revenues. See "Security for and Sources of Payment of the Bonds."**

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA

The Bonds are offered when, as and if issued by the City, subject to the approving opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. It is expected that the Bonds will be available for delivery on or about May 29, 2008.

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

CITY OF MESA

CITY COUNCIL

Keno Hawker, Mayor*
Claudia Walters, Vice Mayor*
Kyle Jones, Councilmember
Tom Rawles, Councilmember*
Scott Somers, Councilmember
Darrell Truitt, Councilmember*
Mike Whalen, Councilmember*

CITY ADMINISTRATIVE OFFICERS

Christopher Brady, City Manager
Debra Dollar, Assistant City Manager
Bryan Raines, Deputy City Manager
Jack Friedline, Deputy City Manager
Kari Kent, Deputy City Manager
Jack Friedline, Acting Utilities Manager
Linda Crocker, City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Peacock, Hislop, Staley & Given, Inc.
Phoenix, Arizona

* Term of Office ends June 2, 2008.

REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the City of Mesa, Arizona (the "City") Utility Systems Revenue Bonds, Series 2008 (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 Financial Advisor. The presentation of information, including tables of receipts from taxes and other revenue sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No person, including any broker, dealer or salesman has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. All estimates and assumptions contained herein have been based on the latest information available and are believed to be reliable, but no representations are made that such estimates and assumptions are correct or will be realized. All beliefs, assumptions, estimates, projections, forecasts and matters of opinion contained herein are forward looking statements which must be read with an abundance of caution and which may not be realized or may not occur in the future. The information and any expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any of the other parties or matters described herein since the date hereof.

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix I — "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

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OFFICIAL STATEMENT

$52,875,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2008

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 $52,875,000 Utility Systems Revenue Bonds, Series 2008 (the "Bonds"), identified on the cover page hereof. Certain information concerning the authorization, purpose, terms, conditions of sale, security for and sources of payment of the Bonds is set forth in this Official Statement.

Initially, the Bonds will be administered under a book-entry-only system (the "Book-Entry-Only System") by The Depository Trust Company, a registered securities depository ("DTC"). Unless and until the Book-Entry-Only System is discontinued, the Bonds will be registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in the Bonds will be offered for sale in amounts of $5,000 of principal due on any single maturity date and multiples thereof. Payments of principal of and interest on the Bonds will be made to DTC and, in turn, through participants in the DTC system. See "APPENDIX D: 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 City's combined utility system (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 will be issued pursuant to A.R.S., Title 9, Chapter 5, Article 3, as amended; voted approval for issuance having been given by the electorate of the City at special bond elections held on March 9, 2004; and November 7, 2006; Resolution No. 6362 adopted by the Mayor and Council of the City on July 29, 1991 (the "Master Resolution"); as heretofore amended and supplemented by seventeen Supplemental Resolutions pertaining to the issuance of outstanding bonds secured by the Net Revenues of the System (each as defined herein); and as further amended and supplemented by an Eighteenth Supplemental Resolution adopted by the Mayor and Council of the City on May 8, 2008, authorizing issuance of the Bonds and a Nineteenth Supplemental Resolution adopted by the Mayor and Council of the City on May 8, 2008 pertaining to the issuance of the City's Utility Systems Refunding Bonds, Series 2008 (the "Series 2008 Refunding Bonds," collectively the "Supplemental Resolutions," and which together with the Master Resolution are referred to herein as the Bond Resolution). The Bonds and the Series 2008 Refunding 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: "Summary of the Master Resolution", herein.) The Bonds are being issued to provide funds to (i) acquire and construct certain improvements to the System, (ii) pay engineering and other consulting fees incurred in the design of improvements to the System, and (iii) pay costs of issuance of the Bonds.

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

Projects to be Funded	Estimated Cost
Natural Gas System	$ 4,215,000
Water System	29,075,000
Wastewater System	16,795,000
Electric System	2,790,000
Total	$52,875,000

A summary of the Master Resolution is 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 Seventeenth 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 Deputy City Manager, 20 East Main Street, Suite 700, Mesa, Arizona 85201.

The City expects to issue $15,450,000 General Obligation Bonds, Series 2008, and $21,125,000 Utility Systems Revenue Refunding Bonds concurrently with the Bonds, pursuant to separate official statements.

General Provisions

The Bonds will be dated the date of initial delivery, and will bear interest from such date payable on January 1, 2009 and semiannually thereafter on January 1 and July 1 of each year (each an "Interest Payment Date") until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at the rates set forth on the cover page of this Official Statement.

The Bonds will be issued only in fully-registered form in the amount of $5,000 of principal due on a single maturity date and any integral multiples thereof, and will initially be registered in the name of Cede & Co., as nominee of the DTC. For a description of registration and transfer of the Bonds through the facilities of DTC, see APPENDIX F: "Book-Entry-Only System."

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

So long as the Book-Entry-Only System is in effect, U.S. Bank National Association will act as the registrar and paying agent for the Bonds (the "Registrar and Paying Agent"). If the Book-Entry-Only System is discontinued, interest on the Bonds will be payable by check drawn on a bank or trust company doing business in the State, to be named by the City as the successor Registrar and Paying Agent, and mailed on or prior to each Interest Payment Date to the registered owners of the Bonds at the addresses shown on the books of the Registrar on the 15th day of the month preceding each such Interest Payment Date (the "Record Date"). Principal of the Bonds will then be payable at maturity or upon redemption prior to maturity upon presentation and surrender on the Bonds to the designated corporate trust office of the Paying Agent. Additionally, if the Book-Entry-Only System is discontinued, payment of interest may also be made by wire transfer upon twenty (20) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any owner of at least $1,000,000 aggregate principal amount of the Bonds. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each.

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

Redemption Provisions

Optional Redemption

Bonds maturing on or before July 1, 2029, are not subject to call for redemption prior to maturity. Bonds maturing on or after July 1, 2030 are subject to call for redemption prior to maturity, at the option of the City, in whole or in part, on July 1, 2018, or any date thereafter by the payment of a redemption price equal to the principal amount of each Bond called for redemption plus interest accrued to the date fixed for redemption, but without premium.

Notice of Redemption

So long as the Bonds are held under the Book-Entry-Only System, notices of redemption will be sent solely to DTC by telecopy or other electronic means. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant to be redeemed. If the Book-Entry-Only System is discontinued, notice of any redemption will be given by the Registrar and Paying Agent on behalf of the City by mailing a notice of redemption by first class mail not less than thirty (30) days nor more than sixty (60) days prior to such redemption date, to the registered owner of each Bond to be redeemed at the address shown on the Bond Register or at such other address as may be furnished in writing by an Owner of a Bond to the Registrar and Paying Agent. Neither the failure of any Owner of the Bonds to receive a notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of Bonds as to which proper notice of redemption was given.

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

Effect of Call for Redemption

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

If a conditional redemption has been given and money sufficient to redeem all the Bonds or portions thereof called for redemption is not held in separate accounts by the City or by a Paying Agent on the day set for redemption, then such redemption shall be cancelled and be of no force or effect.

Redemption of Less Than All of a Bond

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

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of the System, which includes water, electrical, natural gas, wastewater and solid waste systems, after provision has been made for the payment from such revenues of the reasonable and necessary expenses of operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), on a parity of lien on such Net Revenues with the City's outstanding Utility Systems Revenue Bonds previously issued in seventeen separate series and the Series 2008 Refunding Bonds to be issued concurrently with the Bonds and presently outstanding in the aggregate principal amount of $775,405,000 (collectively, with the Bonds, the "Parity Bonds"). See "Combined Schedules of Net Revenues and Debt Service Coverage", APPENDIX C: "City of Mesa, Arizona — Utility Systems Information" and APPENDIX E: "Summary of the Master Resolution."

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 Pledged Revenues.

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

Rate Covenant

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

Reserve Fund

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

Additional Parity Bonds

The Bonds will constitute an additional series of Parity Bonds under the Bond Resolution and will be issued in compliance with the requirements of the Bond Resolution set forth in the succeeding paragraph for the issuance of additional Parity Bonds.

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

The City expects to issue additional Parity Bonds in the future pursuant to existing and future voted bond authorizations and supplemental resolutions. The City is currently authorized to issue $189,077,000 of Parity Bonds in addition to the Bonds, pursuant to voter approval given at special bond elections held on March 29, 1994 and November 7, 2006. The purposes and amounts of such authorized but unissued Parity Bonds are set forth below.

Purpose of Utility Systems Revenue Bond Authorization	Remaining 1994 Bond Authorization*	Remaining 2006 Bond Authorization	Remaining Systems Revenue Bonds Authorized But Unissued
Gas System Improvements	$ 0	$ 12,900,000	$ 12,900,000
Water System Improvements	0	92,977,000	92,977,000
Wastewater System Improvements	0	65,480,000	65,480,000
Electric System Improvements	0	10,050,000	10,050,000
Solid Waste System Improvements*	7,670,000*	0	7,670,000
Total	$ 7,670,000*	$181,407,000	$ 189,077,000

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2007, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately $2,703,119,716 and its total net unearned premium reserve was approximately $2,274,576,959 in accordance with statutory accounting principles. At December 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,962,301,379 and its total net unearned premium reserve was approximately $1,796,984,819 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

ELECTRICAL UTILITY INDUSTRY DEREGULATION

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 of public power entities (such as the City), and confirms the authority of the Arizona Corporation Commission (the “ACC”) 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 such as the City. 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 non-competition 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 is now open to competition. However, the City is now able to compete for customers throughout the City limits, which encompass approximately 128 square miles. The City’s covenant not to allow competing utility service is, therefore, no longer effective.

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.

	2006/07	2005/06	2004/05	2003/04	2002/03
System Revenues:*					
Electric System**	$ 35,432,763	$ 36,086,124	$ 30,480,265	$ 33,399,620	$ 27,949,624
Gas System	45,842,250	44,130,027	35,222,998	29,626,737	25,420,566
Water System	99,197,101	94,411,289	83,124,254	80,062,768	76,631,149
Wastewater System	61,153,014	55,641,423	50,663,629	44,232,923	42,704,907
Solid Waste System	43,640,925	39,256,563	36,822,723	33,950,756	31,940,689
Total System Revenues	$ 285,266,053	$ 269,525,426	$ 236,313,869	$ 221,272,804	$ 204,646,935
System Expenses:*					
Electric System**	$ 22,733,164	$ 23,695,805	$ 21,602,537	$ 21,798,100	$ 19,186,705
Gas System	34,335,024	35,300,435	30,682,436	23,772,433	20,300,753
Water System	36,182,814	33,205,364	33,658,899	30,394,210	27,688,469
Wastewater System	21,502,197	19,986,224	18,323,203	17,105,540	15,567,214
Solid Waste System	26,209,526	23,577,534	22,190,513	20,215,613	19,903,824
Total System Expense	$ 140,962,725	$ 135,765,362	$ 126,457,588	$ 113,285,896	$ 102,646,965
Net Income Available For Debt Service (Net Revenues)**	$ 144,303,328	$ 133,760,064	$ 109,856,281	$ 107,986,908	$ 101,999,970
Utility Systems Revenue Bond Debt Service Requirements	$ 29,644,976	$ 26,183,553	$ 23,754,519	$ 34,486,532	$ 27,259,114
Approximate Debt Service Coverage Provided By Net Revenues**	4.87x	5.11x	4.62x	3.13x	3.74x

* 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 and the Salt River Project Agricultural Improvement District ("SRP") have held preliminary discussions concerning the acquisition of the City's Electric System by SRP. At this time it is impossible to predict the outcome of such discussions. For fiscal year 2006/07 the Net Income Available for Debt Service (Net Revenues) without the Electric System would total $131,603,729, which would reduce the Approximate Debt Service Coverage Provided By Net Revenues to 4.44x.

Source: City of Mesa, Arizona Financial Services Department.

Historically, the City has annually transferred a portion of the Net Revenues to the City's general fund after providing for payment of the current debt service requirements of all Parity Bonds and utility systems – supported general obligation bonds. In fiscal year 2006/07, such transfer occurred in the amount of approximately $67 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. See "ELECTRICAL UTILITY INDUSTRY DEREGULATION" above

Costs of System Operation and Availability of Materials. The production of Net Revenues from the System could be affected by the costs of operating and maintaining the System, including the availability and price of commodities could be materially adversely affected by factors beyond the control of the City, such as strikes, energy shortages, material shortages, inflation, adverse weather conditions, supplier insolvencies, changes in state or federal law and other contingencies.

Possible Future Litigation Regarding Utility Rates. Litigation against the City regarding referendum petitions seeking a referendum as to utility rate increases adopted in 2004 resulted in a final decision holding such increases as not subject to voter approval by referendum. However, an amendment to A.R.S. 9-511.01 made by the Arizona Legislature in 2006, which requires that rates and charges for water and wastewater services charged by Arizona cities and towns must be "just and reasonable," may encourage litigation against cities and towns, such as the City, to reduce or defer rate increases, or attack future rate increases.

Other Considerations. The Audited Financial Statements of the City included in APPENDIX D hereto are for the fiscal year ended June 30, 2007 and are not current. Such financial statements are the most recent audited financial statements for the City.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
The Bonds	$52,875,000.00
Net Original Issue Premium	614,681.00
Total Sources of Funds	$53,568,961.75
Uses of Funds:	
Deposit to Construction Fund and Costs of Issuance*	$52,875,000.00
Bond Insurance Premium	611,000.00
Deposit to Bond Fund	3,861.00
Total Uses of Funds	$53,568,961.75

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

DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

The following schedule sets forth (i) the annual debt service requirements of the City's outstanding Parity Bonds (ii) the annual debt service requirements of the Bonds, (iii) the total annual utility systems revenue bond debt service requirements following issuance of the Bonds and (iv) the estimated debt service coverage ratio provided for such estimated total annual debt service requirements based upon the City’s fiscal year 2006/07 Net Revenues ($144,303,328).

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

	Utility Systems Revenue Bonds Outstanding (b)		Series 2008 Refunding Bonds (c)		The Bonds		Combined Annual	Debt Service Coverage
Fiscal Year	Principal	Interest	Principal	Interest (d)	Principal	Interest (e)	Debt Service Requirements	Provided by Net Revenues (f)
2007/08	$ 7,960,000	$34,846,428		$ 73,156			$42,879,583	3.37x (g)
2008/09	9,715,000	33,436,963	$ 100,000	823,000		$2,837,406	46,912,369	
2009/10	10,375,000	32,915,763	100,000	819,000		2,605,781	46,815,544	
2010/11	10,960,000	32,302,263	1,625,000	815,000		2,605,781	48,308,044	
2011/12	23,165,000	31,719,488	1,675,000	750,000		2,605,781	59,915,269	
2012/13	26,530,000	30,456,513	7,500,000	683,000		2,605,781	67,775,294	
2013/14	33,745,000	29,121,863	1,850,000	383,000		2,605,781	67,705,644	
2014/15	35,645,000	27,375,288	1,950,000	309,000		2,605,781	67,885,069	2.13x (g)
2015/16	37,315,000	25,548,495	2,025,000	231,000		2,605,781	67,725,276	
2016/17	39,210,000	23,709,820	2,100,000	150,000		2,605,781	67,775,601	
2017/18	29,680,000	21,790,665	2,200,000	66,000		2,605,781	56,342,446	
2018/19	34,825,000	20,306,665	-	-		2,605,781	57,737,446	
2019/20	26,920,000	18,555,815	-	-		2,605,781	48,081,596	
2020/21	28,180,000	17,245,890	-	-		2,605,781	48,031,671	
2021/22	29,435,000	15,870,565	-	-		2,605,781	47,911,346	
2022/23	29,160,000	14,376,315	-	-	$ 725,000	2,605,781	46,867,096	
2023/24	30,545,000	12,865,165	-	-	875,000	2,567,719	46,852,884	
2024/25	32,380,000	11,259,053	-	-	700,000	2,521,781	46,860,834	
2025/26	33,680,000	9,796,390	-	-	900,000	2,485,031	46,861,421	
2026/27	35,130,000	8,342,300	-	-	950,000	2,437,781	46,860,081	
2027/28	36,800,000	6,791,563	-	-	875,000	2,387,906	46,854,469	
2028/29	38,250,000	5,183,690	-	-	1,075,000	2,341,969	46,850,658	
2029/30	40,000,000	3,526,500	-	-	1,050,000	2,285,531	46,862,031	
2030/31	41,800,000	1,776,500	-	-	1,050,000	2,230,406	46,856,906	
2031/32	-	-	-	-	44,675,000	2,177,906	46,852,906	
	$701,405,000		$21,125,000		$52,875,000			

(a) Prepared by Peacock, Hislop, Staley & Given, Inc. (the “Financial Advisor”). Columns may not total due to rounding.

(b) Includes the bonds refunded by the Series 2008 Refunding Bonds to be issued concurrently with the Bonds, pursuant to a separate official statement.

(c) Series 2008 Refunding Bonds to be issued concurrently with the Bonds.

(d) Interest is actual The first interest payment on the Series 2008 Refunding Bonds is due July 1, 2008, representing interest from the delivery date of the Series 2008 Refunding Bonds. Thereafter interest payments will be made semiannually on July 1 and January 1 until maturity or prior redemption.

(e) Interest is actual. The first interest payment on the Bonds is due January 1, 2009, representing interest from the date of the Bonds. Thereafter interest payments will be made semiannually on July 1 and January 1 until maturity or prior redemption of the Bonds.

(f) Debt Service Coverage is computed using the Net Revenues of $144,303,328 for fiscal year 2006/07. See "Combined Schedules of Net Revenues and Debt Service Coverage," herein. The fiscal year 2006/07 Net Revenues provide coverage for the total estimated annual debt service requirements in fiscal year 2007/08 of approximately 3.37x and approximately 2.13x the total estimated 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.

(g) The City and the SRP have held preliminary discussions concerning the acquisition of the City's Electric System by SRP. At this time it is impossible to predict the outcome of such discussions. For fiscal year 2006/07 the Net Income Available for Debt Service (Net Revenues) without the Electric System would total $131,603,729 . This would provide coverage for the total estimated annual debt service requirements in fiscal year 2007/08 of approximately 3.07x and approximately 1.94x the total estimated 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 & Poor's Ratings Group ("S&P") have assigned ratings of "Aaa" and "AAA," respectively, to the Bonds with the understanding that Financial Security will issue the Policy simultaneously with delivery of the Bonds. Moody's and S&P have also assigned underlying ratings of "A1" and "AA-," respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P. An explanation of the significance of such ratings, if assigned, may be obtained from Moody's at 99 Church Street, New York, New York 10007 and from S&P at 55 Water Street, New York, New York 10041. Such ratings may subsequently be revised downward or withdrawn entirely by Moody's or S&P, if, in their respective judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The City will covenant in its continuing disclosure certificate (see "Continuing Secondary Market Disclosure" below) that it will cause notices to be filed with the Nationally Recognized Municipal Securities Information Repositories, the Municipal Securities Rulemaking Board and any State depository, hereafter designated, of any formal change in the ratings relating to the Bonds.

LEGAL MATTERS

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

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

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

TAX EXEMPTION

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

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

The Code also imposes an "alternative minimum tax" ("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 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 purchasing the Bonds, including without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain subchapter S corporations, individuals who receive Social Security or Railroad Retirement benefits and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax-exempt obligations should consult their tax consultants as to the applicability of such tax consequences to the respective Beneficial Owner. The nature and extent of these other tax consequences will depend upon the respective Beneficial Owner's particular tax status and the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

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

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

BOND PREMIUM

The difference between the principal amount of the Bonds (the "Premium Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesales), at which price a substantial amount of the Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond. For the purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Premium Bonds. Beneficial Owners of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for Federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

LITIGATION

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

CERTIFICATION CONCERNING OFFICIAL STATEMENT

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

CONTINUING SECONDARY MARKET DISCLOSURE

The City has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than February 1 in each year commencing February 1, 2009 (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 either 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) or with a Central Post Office designated as such by the Securities and Exchange Commission for such transmissions. 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. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in APPENDIX H: "Form of Continuing Disclosure Certificate," attached hereto. These covenants have been made in order to assist the Underwriter 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. Continuing disclosure undertakings previously entered into by the City called for the City to file annual reports and certain financial information and operating data relating to the City with respect to fiscal years ended June 30, 2005 by February 1, 2006. The City filed such annual report and required information in April 2006. The City is and has otherwise complied with all existing continuing disclosure undertakings relating to the District in all material aspects.

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.

FINANCIAL ADVISOR

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

GENERAL PURPOSE FINANCIAL STATEMENTS

The Audited General Purpose Financial Statements of the City for the year ended June 30, 2007, a copy of which is included in APPENDIX D of this Official Statement, have been audited by Cronstrom, Osuch & Company P.C., 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, 2007 and are not current. Such audited financial statements are public records and are included herein as such. The City neither requested nor obtained the consent of Cronstrom, Osuch & Company P.C. to include the report, and Cronstrom, Osuch & Company P.C. has performed no procedures subsequent to rendering its opinion on the financial statements.

CONCLUDING STATEMENT

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

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

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

CITY OF MESA, ARIZONA

By: /s/ Bryan Raines
Deputy City Manager

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APPENDIX A

CITY OF MESA, ARIZONA
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The City is the third largest city in the State and the 42nd largest city in the United States. Founded in 1878 and incorporated in 1883, the City has a 2008 estimated population of 462,823. 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
2007 Estimate**	456,344	3,907,492	6,500,194
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

* The City has a 2008 estimated population of 462,823. (City of Mesa Planning Department)

** Estimated population as of July 1, 2007. Approved Dec. 15, 2007. (Arizona Department of Economic Security)

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

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

SQUARE MILE STATISTICS
City of Mesa, Arizona

Year	Square Miles
2007	131.80
2000	125.00
1990	122.11
1980	66.31
1970	20.80

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

Municipal Government and Organization

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

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

City Administrative Staff

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

Debra L. Dollar, Assistant City Manager. Ms. Dollar was appointed Assistant City Manager in November 2006 after serving as Deputy City Manager for six years. 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 and a graduate of ASU's Institute for Public Executives. 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.

Bryan Raines, Deputy City Manager. Mr. Raines was appointed Deputy City Manager in November 2006 after serving as Financial Services Manager of the City for three years. Mr. Raines has been employed by the City since 1983, serving in various positions throughout the City. He has served the City as Interim Manager and Manager of Neighborhood Services Department. Prior to that he was an Assistant to the City Manager for 12 years where he oversaw development of the City's annual budget. Mr. Raines holds a Bachelor of Science degree in Public Administration from Northern Arizona University and a Master of Public Administration degree from Arizona State University.

Jack Friedline, Deputy City Manager and Acting Utilities Manager. Mr. Friedline was appointed Deputy City Manager in November 2006. He served as Development Services Manager of the City from January 1999 through November 2006 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.

Kari Kent, Deputy City Manager. Ms. Kent has been with the City since 1993. She was promoted to Solid Waste Management Director in 1999 and Assistant Development Services Director in July 2001. She has been Neighborhood Services Director since June 2006 and will continue as Acting Neighborhood Services Director until a replacement is named. Kent received a Bachelor of Science Degree in Political Science from Northern Arizona University and a Masters of Public Administration 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.

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
2007	4.6	3.8	3.2 %	2.9 %
2006	4.6	4.2	3.5	3.3
2005	5.1	4.7	4.1	3.7
2004	5.5	5.0	4.4	4.0
2003	6.0	5.7	5.1	4.7

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

Manufacturing and Non-Manufacturing Employment

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

MAJOR EMPLOYERS
City of Mesa, Arizona

Employer	Description	Approximate Employment
Mesa Public Schools	Public Education	8,990
Banner Health System	Hospital Network	6,575
Boeing, Inc.	Helicopter Manufacturing and Assembly	4,600
City of Mesa	Government	4,150
Empire Southwest Machinery	Construction Machinery	1,000
TRW/Vehicle Safety Systems, Inc.	Automotive Restraint Systems	850
Fed Ex	Delivery	850
Mesa Community College	Higher Education	700
AMPAM Riggs Plumbing	Distributor and Manufacturer of Plumbing Products	650
Mesa Fully Formed	Countertops/Fixtures	600
U.S. Postal Service	Government	520
Tribune Newspapers	Newspaper Publishing	500
Brown and Brown Chevrolet	Car Dealership	405

Source: City of Mesa – Office of Economic Development, Phoenix Business Journal Book of Lists 2008 and an individual employer survey.

Phoenix/Mesa Gateway Airport

Phoenix/Mesa Gateway Airport (formerly known as Williams Gateway Airport) has three runways (10,401 feet; 10,201 feet; and 9,301 feet) and a newly remodeled passenger terminal. Phoenix/Mesa Gateway is positioned to be a reliever airport to Phoenix's Sky Harbor International Airport.

Phoenix/Mesa Gateway Airport is also developing as an international aerospace center with aircraft maintenance, modification, testing and pilot training. Currently, more than 35 aviation companies operate at the airport, generating over $251 million in annual economic activity.

Phoenix/Mesa Gateway Airport is owned and operated by the Williams Gateway Airport Authority which includes the City of Mesa, City of Phoenix, Town of Gilbert, Town of Queen Creek, and the Gila River Indian Community.

Adjacent to Phoenix/Mesa Gateway Airport, the Williams Campus serves approximately 8,700 students. The campus includes five higher education partners - Arizona State University Polytechnic campus, Chandler-Gilbert Community College, Embry-Riddle Aeronautical University, Mesa Community College and UND Aerospace. The ASU Polytechnic campus is under construction, adding new academic buildings that will more than double the instructional lab and classroom space, and will add faculty offices and a 500-seat auditorium upon completion in June 2008.

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 2003-2007.

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

Year	Residential	Commercial	Industrial	Other	Total
2007	$32,093	$54,446	$24,242	$34,749	$145,530
2006	243,513	94,030	5,975	49,649	393,167
2005	368,603	289,831	43,359	94,650	796,523
2004	411,305	256,247	9,053	56,990	733,595
2003	417,891	139,659	6,967	105,422	669,939

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.

NEW HOUSING PERMITS
City of Mesa, Arizona

Year	Total New Housing Units
2007	1,631
2006	1,103
2005	2,629
2004	2,815
2003	2,926

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.

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	1,285,839	98.70	1990
Fiesta Mall	977,191	97.30	1979
Mesa Pavillions at Superstition Springs	719,700	99.54	1993
Superstition Springs Power Center	415,211	100.00	1991

Source: Individual employer surveys.

TAXABLE
RETAIL SALES
City of Mesa, Arizona

Year	Retail Sales
2006/07	$ 6,064,941,444
2005/06	6,076,511,194
2004/05	5,367,315,877
2003/04	4,910,113,501
2002/03	4,539,034,901

Source: City of Mesa.

Agriculture

Although still a contributor to the economic base, the agricultural sector is no longer a significant factor of the City's economy due to the industrial, commercial and residential development which has occurred over the past 30 years. The principal products of the City's 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
Phoenix Marriott Mesa	273
Hilton Phoenix East-Mesa	263
Holiday Inn Mesa	246
Dobson Ranch Inn	213
Arizona Golf Resort	187
Marriott Courtyard	149
Mezona	132
Country Inn and Suites	126
La Quinta (West)	125
Quality Inn/Suites	120
Residence Inn	117

Source: Mesa Convention and Visitors Bureau.

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

The $90 million Mesa Arts Center facility in downtown Mesa opened in spring of 2005. The Mesa Arts Center is a 212,775-sqare foot performing arts, visual arts and arts education facility, the largest and most comprehensive arts center in the State.

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 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.

APPENDIX B

CITY OF MESA, ARIZONA

FINANCIAL DATA

Current Year Statistics (For Fiscal Year 2007/08)
City of Mesa, Arizona

Total General Obligation Bonds to be Outstanding	$ 241,855,000	(a)
Total Utility Systems Revenue Bonds to be Outstanding	775,405,000	(b)
Total Street and Highway User Revenue Bonds Outstanding	142,460,000	(c)
Total Excise Tax Obligations Outstanding	13,665,000	(d)
Primary Assessed Valuation	3,288,960,069	(e)
Secondary Assessed Valuation	4,114,527,313	(e)
Estimated Full Cash Value	32,080,488,146	(f)

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

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

(c) Represents all street and highway user revenue bonds outstanding. See "Statements of Bonds Outstanding — Street and Highway User Revenue Bonds Outstanding" in this appendix.

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

(e) Arizona legislation divides property taxes into two categories, primary and secondary. Secondary property taxes are those taxes and assessments imposed to pay principal and interest on bonded indebtedness and certain other obligations, those imposed for special districts other than school districts and those imposed to exceed a budget, expenditure or tax limitation pursuant to voter approval. Primary property taxes are all ad valorem taxes other than secondary property taxes. Annual increases in the valuation of certain types of property for primary property tax purposes and the amount of primary property taxes which may be levied in any year are subject to certain limitations. Except for the Property Valuation Protection Option mentioned under “Property Taxes-Ad Valorem Taxes,” such limitations do not apply with respect to secondary property taxes. The City’s estimated primary assessed valuation for fiscal year 2008/09 is $3,744,148,629. The City’s estimated secondary assessed valuation for fiscal year 2008/09 is $4,793,081,793.

(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
1998	Various Purpose	$ 30,000,000	7-1-09/18	$ 2,000,000
1998	Refunding	18,100,000	7-1-99/08	16,875,000
1999	Various Purpose	38,500,000	7-1-09/18	1,000,000
2000	Various Purpose	36,500,000	7-1-09/19	5,250,000
2002	Various Purpose	26,575,000	7-1-09/20	3,575,000
2002	Refunding	24,840,000	7-1-04/15	24,610,000
2002A	Refunding	40,105,000	7-1-10/16	40,105,000
2003	Various Purpose	22,565,000	7-1-10/22	22,565,000
2004	Refunding	46,445,000	7-1-09/18	46,445,000
2005	Various Purpose	11,705,000	7-1-12/24	11,705,000
2006	Various Purpose	9,710,000	7-1-13/25	9,710,000
2006	Refunding	26,650,000	7-1-11/14	26,650,000
2007	Various Purpose	15,915,000	7-1-19/27	15,915,000
General Obligation Bonds Outstanding				$226,405,000
Plus General Obligation Bonds, Series 2008				15,450,000
Total General Obligation Bonds to be Outstanding				$241,855,000

(g) Excludes $3,500,000 principal amount of the City's General Obligation Bonds, Series 1999; $6,750,000 principal amount of the City's General Obligation Bonds, Series 2000; and $9,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2006. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $28,000,000 principal amount of the City's General Obligation Bonds, Series 1998; $1,585,000 principal amount of the City's General Obligation Bonds, Series 1999; $11,750,000 principal amount of the City's General Obligation Bonds, Series 2000; and $4,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $10,415,000 principal amount of the City's General Obligation Bonds, Series 1999, representing a portion of such bonds maturing July 1, 2017 and July 1, 2018, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $1,505,000 principal amount of the City's General Obligation Bonds, Series 1999; $12,750,000 principal amount of the City's General Obligation Bonds, Series 2000 and $8,500,000 principal amount of the City's General Obligation Bonds, Series 2002, all of which were refunded by the City's General Obligation Refunding Bonds, Series 2002A. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $5,840,000 principal amount of the City's General Obligation Bonds, Series 1999, which was refunded by the City's General Obligation Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $14,655,000 principal amount of the City's General Obligation Bonds, Series 1999, representing a portion of such bonds maturing July 1, 2011 through July 1, 2016, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding (h)
1997	Utility Improvements	$ 94,730,000	7-1-12/17	$ 4,000,000
1998	Refunding	32,500,000	7-1-00/13	16,935,000
1998	Utility Improvements	34,600,000	7-1-09/18	17,175,000
2000	Utility Improvements	69,200,000	7-1-09/19	14,450,000
2002	Utility Improvements	57,950,000	7-1-09/21	8,950,000
2002	Refunding	129,000,000	7-1-04/17	128,750,000
2002A	Refunding	48,850,000	7-1-08/17	48,850,000
2003	Utility Improvements	50,470,000	7-1-10/22	24,970,000
2004	Refunding	40,345,000	7-1-14/19	40,345,000
2004	Utility Improvement	64,625,000	7-1-19/28	6,125,000
2005	Utility Improvement	91,200,000	7-1-19/29	71,200,000
2006	Utility Improvement	105,400,000	7-1-23/30	87,325,000
2006	Refunding	61,300,000	7-1-09/21	61,300,000
2006	Refunding	127,260,000	7-1-12/28	127,260,000
2007	Utility Improvement	65,550,000	7-1-23/31	65,550,000
Utility Systems Revenue Bonds Outstanding				$723,185,000
Plus Utility Systems Revenue Bonds, Series 2008 to be Issued				52,875,000
Less Bonds Being Refunded				(21,780,000)
Plus Utility Systems Revenue Refunding Bonds, Series 2008 to be Issued				21,125,000
Total Utility Systems Revenue Bonds to be Outstanding				$775,405,000

(h) Excludes $9,495,000 principal amount of the City's Utility Systems Revenue Refunding Bonds, Series 1998; $2,195,000 principal amount of the City's Utility Systems Revenue Bonds, Series 1998; and $35,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2006. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $15,750,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2000 and $14,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $12,935,000 principal amount of the City's Utility Systems Revenue Bonds, Series 1998; $4,220,000 principal amount of the City's Utility Systems Revenue Refunding Bonds, Series 1998, and $21,250,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2000, all of which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2002A. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S.

Bank National Association.

Excludes $17,750,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2000, all of which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
1997	Street Improvements	$ 19,000,000	7-1-09/17	$ 1,650,000
1999	Street Improvements	7,900,000	7-1-09/17	975,000
2000	Street Improvements	20,000,000	7-1-10/19	3,000,000
2002	Street Improvements	25,800,000	7-1-10/20	2,800,000
2002	Refunding	31,985,000	7-1-04/17	31,535,000
2003	Street Improvements	26,805,000	7-1-10/22	26,805,000
2004	Refunding	17,760,000	7-1-14/18	17,760,000
2004	Street Improvements	9,585,000	7-1-10/23	1,585,000
2005	Refunding	23,800,000	7-1-07/23	23,775,000
2005	Street Improvements	10,225,000	7-1-10/24	10,225,000
2006	Street Improvements	11,675,000	7-1-23/25	11,675,000
2007	Street Improvements	10,675,000	7-1-23/27	10,675,000
Total Street and Highway User Revenue Bonds Outstanding				$142,460,000

(i) Excludes $500,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 1999; $2,500,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2000; $13,250,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002; and $8,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2004, all of which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2005. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $1,125,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 1999; $2,500,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2000; and $6,750,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002, all of which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excludes $5,300,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 1999; $12,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2000, and $3,000,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2002, all of which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
1996	MLB Spring Training Facilities	20,000,000	10-15-08/16	$ 9,970,000
1998	Municipal Facilities	7,300,000	7-1-01/08	1,065,000
2003	Refunding	19,520,000	1-1-04/09	2,630,000
Total Outstanding Excise Tax Obligations				$ 13,665,000

The City expects to issue approximately $9,970,000 Municipal Facilities Revenue Refunding Bonds, Series 2008 in the second quarter of 2008. Such issue will be designed to refunding the outstanding Series 1996 Bonds indicated above.

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

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

General Municipal Purpose Bonds		Water, Light, Sewer, Open Space, Parks, Streets and Public Safety Bonds	
Total 6% General Obligation Bonding Capacity	$246,871,638	Total 20% General Obligation Bonding Capacity	$822,905,462
Less 6% General Obligation Bonds Outstanding	(22,453,366)	Less 20% General Obligation Bonds Outstanding	(219,401,634)
Net 6% General Obligation Bonding Capacity	$224,418,272	Net 20% General Obligation Bonding Capacity	$603,503,828

(j) General obligation bonding capacity is calculated using the City's fiscal year 2007/08 secondary assessed valuation of $4,114,527,313. The bonds outstanding set forth above include the City’s $15,450,000 General Obligation Bonds, Series 2008.

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

Overlapping Jurisdiction	General Obligation Bonded Debt (l)	Portion Applicable to City of Mesa (k) Approximate Percentage	Portion Applicable to City of Mesa (k) Net Debt Amount
State of Arizona	None	5.67 %	None
Maricopa County (m)	None	8.49	None
Maricopa Community College District (n)	$557,390,000	8.49	$ 46,319,109
East Valley Institute of Technology District No. 401	None	19.57	None
Mesa Unified School District No. 4	239,315,000	85.80	205,188,681
Tempe Elementary School District No. 3	114,455,000	0.62	709,621
Tempe Union High School District No. 213	117,540,000	0.28	588,984
Gilbert Unified School District No. 41 (o)	219,015,000	26.48	56,571,575
Queen Creek Unified School District No. 95	29,505,000	16.84	4,998,147
Higley Unified School District No. 60	58,530,000	2.24	1,030,128
City of Mesa (p)	241,855,000	100.00	241,855,000
Total Direct and Overlapping General Obligation Bonded Debt Outstanding			$557,261,245

Source: The various entities.

(k) Proportion applicable to the City is computed on the ratio of secondary assessed valuation as calculated for fiscal year 2007/08 for the overlapping jurisdiction to the amount of such valuation which lies within the City.

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

Overlapping Jurisdiction	**General Obligation Bonds Authorized but Unissued**
Maricopa County Community College	$521,093,000
Mesa Unified School District No. 4	117,500,000
Tempe Elementary School District No. 3	25,215,000
Queen Creek Unified School District No. 95	23,315,000
Higley Unified School District No. 60	91,290,000
City of Mesa	76,906,000

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 certain capital costs for construction of the Central Arizona Project ("CAP"), a major reclamation project that has been substantially completed by the Department of the Interior. The obligation is evidenced by a master contract between CAWCD and the Department of the Interior. In April of 2003, the United States and CAWCD agreed to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payment of the operation, maintenance and replacement costs and the application of certain revenues and credits against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.646 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 667,724 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of CAP at no additional cost to CAWCD. Of the $1.646 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be fixed for the entire 50-year repayment period, which commenced October l, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and other water claims and will require certain legislation. The United States Congress recently passed legislation settling the competing claims, state legislation is now needed. If the conditions are not met by May 9, 2012, and the parties do not amend the agreement, the agreement will terminate and litigation will resume. If it appears prior to May 9, 2012, that the conditions will not be met by the deadline, the parties can amend the agreement or either party may petition the U.S. District Court to terminate the agreement and resume litigation. It is not possible to predict whether the agreement will become finally effective, be amended, or terminate, or whether litigation will resume. If litigation resumes, it is not possible to predict the outcome of 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 the CAP and to assist in the repayment to the United States of the CAP capital costs. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of CAP water) and a tax levy against all taxable property within CAWCD's boundaries. At the date of this Official Statement, the tax levy is limited to fourteen cents per $100 of secondary assessed valuation, of which ten cents is being currently levied for 2007/08. (See Arizona Revised Statutes, Sections 48-3715 and 48-3715.02.) There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract.

(m) Does not include Maricopa County certificates of participation outstanding in the aggregate principal amount of $4,295,000. Does not include Maricopa County Public Finance Corporation lease revenue bonds outstanding in the aggregate principal amount of $173,670,000. Does not include Maricopa County Stadium District revenue bonds outstanding in the aggregate amount of $47,230,000.

(n) Does not include Maricopa County Community College District revenue bonds outstanding in the aggregate principal amount of $18,300,000.

(o) Does not include Gilbert Unified School District No. 41 certificates of participation outstanding in the aggregate principal amount of $2,420,000.

(p) Does not include the City's utility systems revenue bonds to be outstanding in the aggregate principal amount of $775,405,000.

Does not include the City's street and highway user revenue bonds outstanding in the aggregate principal amount of $142,460,000.

Does not include the City's excise tax obligations outstanding in the aggregate principal amount of $13,665,000. Such obligations are secured and payable from a pledge of the City's transaction privilege tax revenues and certain other general fund revenues.

Does not include various City special assessment bonds outstanding in the aggregate principal amount of $8,046,000.

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

	Per Capita Bonded Debt Population Estimated at 462,823	As a Percentage of City's 2007/08 Secondary Assessed Valuation	2007/08 Estimated Full Cash Value
Direct General Obligation Bonded Debt	$ 1,204.05	5.88 %	0.75 %
Direct and Overlapping General Obligation Debt	522.56	13.56	1.74

(q) Provided by the City. Includes the City's $15,450,000 General Obligation Bonds, Series 2008 to be issued.

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, 2007, contained in APPENDIX D of this Official Statement.

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

All of the City's full-time general employees participate in the Arizona State Retirement System (the "System"), a multiple-employer, cost-sharing defined benefit pension plan, administered by the Arizona State Retirement System. Annual contributions are set by Arizona Legislature. For fiscal year 2007/08 the City's annual contribution to the System is 9.60%. The City is current on its contributions to the System. See Note 4 on page 56 of the City's audited financial statements for fiscal year 2007 presented in APPENDIX D for more information concerning the City's obligations to the System.

The City provides post-retirement health care benefits to all retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2007, approximately 1,130 former employees were eligible for these benefits. Other Post Employment Benefits ("OPEB") costs incurred by the City in fiscal year 2007 were $5.6 million for health care costs for retired employees. This cost represents actual claims paid for retirees under the self-insurance program and premiums paid to the vision care provider; net of contributions received from retirees and retirement systems. See Note 3 – Post Employment Benefits on page 56 of the City's audited financial statements for fiscal year 2007 presented in APPENDIX D.

Beginning with the Fiscal Year that commenced on July 1, 2007, the City must implement GASB 45, *Accounting by Employers for Other Post Employment Benefits (OPEB),* which will require the City to report the actuarially accrued cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. GASB 45 will require that such benefits be recognized as current costs over the working lifetime of employees, and to the extent such costs are not prefunded, GASB 45 will require the reporting of such costs as a financial statement liability. Under GASB 45, the City will be required to commission an actuarial valuation of its OPEB costs every two years. City contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB costs, which under GASB 45 will be required to be recorded as a liability in the City's financial statements.

Under the current program, the City expects that the financial statement liability will be significant in the future. The annual current costs for such benefits reported in compliance with GASB 45 is expected to substantially exceed the annual amounts that the City has paid in the past. Based on the most recent actuarial valuation, the annual required contribution is $27.5 million. The City has budgeted $0 in fiscal year ending July 1, 2008 to fund the annual required contribution. Over the next year the City will consider certain options available to address its OPEB liability.

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 Valuation 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, 2004 through 2008, for each class are set forth below:

PROPERTY TAX ASSESSMENT RATIOS
Tax Years 2004 through 2008

Property Classification (r)	2004	2005	2006	2007	2008
Mining, Utility, Commercial and Industrial (s)	25.0 %	25.0 %	24.5 %	24.0 %	23.0 %
Agricultural and Vacant Land (s)	16.0	16.0	16.0	16.0	16.0
Owner Occupied Residential	10.0	10.0	10.0	10.0	10.0
Leased or Rented Residential	10.0	10.0	10.0	10.0	10.0
Railroad, Private Car Company and Airline Property (t)	21.0	21.0	22.0	21.0	20.0

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

(r) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation.

(s) For the tax year 2008, full cash values up to $63,262 on commercial, industrial and agricultural personal property are exempt from taxation. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of that amount will be assessed at the applicable rate. Effective January 1, 2008, the assessment rate on mining, utility, commercial and industrial property was reduced to 23.0%. Additionally, this rate will be reduced by one percent annually through 2012, resulting in an assessment rate of 20% from and after December 31, 2010.

(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 2007/08.

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

Overlapping Jurisdiction	2007/08 Secondary Assessed Valuation	2007/08 Primary Assessed Valuation	Total Tax Rates Per $100 Assessed Valuation
State of Arizona	$71,837,099,233	$58,327,768,286	None
Maricopa County	49,534,573,831	38,930,267,550	$ 1.1046 *
Maricopa County Community College District	49,534,573,826	38,930,267,550	0.9760
Maricopa County Fire District Annual Levy (u)	49,730,785,225	N/A	0.0053
Maricopa County Flood Control District (u)	45,937,944,910	N/A	0.1533
Maricopa County Special Health Care District	49,534,573,826	N/A	0.0935
Maricopa County Library District (u)	49,534,573,831	N/A	0.0391
Central Arizona Water Conservation District (u)	49,730,785,225	N/A	0.1000
East Valley Institute of Technology District No. 401 (u)	21,881,487,982	N/A	0.0500
Mesa Unified School District No. 4	4,019,953,396	3,227,463,922	5.4292
Tempe Elementary School District No. 3	1,947,868,643	1,675,712,903	3.8191
Tempe Union High School District No. 213	4,543,976,779	3,738,494,670	2.5074
Gilbert Unified School District No. 41	2,320,360,222	1,759,769,783	4.9667
Queen Creek Unified School District No. 95	333,176,126	237,064,618	5.5443
Higley Unified School District No. 60	585,337,002	422,916,018	5.9089
City of Mesa	4,114,527,313	3,288,960,069	None

Source: Maricopa County Finance Department and *Property Tax Rates and Assessed Values,* Arizona Property Tax Research Foundation.

(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

There are 15 taxing jurisdictions which overlap the City's boundaries. The total overlapping property tax rate for property owners within the District ranges from $7.4885 to $8.8483.

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	2007/08 Secondary Assessed Valuation	2006/07 Secondary Assessed Valuation	2005/06 Secondary Assessed Valuation	2004/05 Secondary Assessed Valuation	2003/04 Secondary Assessed Valuation
Utilities, Commercial and Industrial	$1,200,422,488	$1,075,708,760	$ 988,237,209	$ 929,911,285	$ 860,061,989
Agriculture and Vacant	233,766,500	174,302,360	135,971,514	145,201,318	119,316,056
Residential (Owner Occupied)	2,252,022,268	1,509,044,085	1,491,128,060	1,304,924,162	1,216,585,549
Residential (Rental)	426,596,244	322,666,375	305,296,821	266,768,120	267,227,897
Railroad	1,048,364	1,042,740	1,079,556	1,029,811	429,371
Historic	602,454	305,970	285,754	328,588	257,372
Improvements	68,995	-	-	-	-
	$4,114,527,313	$3,083,070,290	$2,921,998,915	$2,648,163,284	$2,463,878,234

Source: *Abstract of the Assessment Roll (2007),* Arizona Department of Revenue.

Comparative Secondary Assessed Valuation Histories

Fiscal Year	City of Mesa	Maricopa County	State of Arizona
2007/08	$ 4,114,527,313	$ 49,534,573,831	$ 71,837,099,233
2006/07	3,083,070,290	36,294,693,601	54,394,761,521
2005/06	2,921,998,915	33,197,218,398	48,938,261,134
2004/05	2,648,163,284	30,066,986,670	44,480,893,202
2003/04	2,463,878,234	27,477,987,528	40,861,415,479

Source: *Property Tax Rates and Assessed Values,* Arizona Property Tax Research Foundation and the Assessor of the County.

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

Fiscal Year	City of Mesa
2007/08	$ 32,080,488,146
2006/07	22,985,915,772
2005/06	22,069,654,276
2004/05	19,625,885,859
2003/04	18,404,646,347

(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 (w)	2007/08 Secondary Assessed Valuation	As % of City's 2007/08 Total Secondary Assessed Valuation
Qwest Corporation	$ 36,336,325	0.88 %
Hughes Helicopters Inc.	23,560,978	0.57
Wal-Mart Stores Inc.	20,678,916	0.50
East Mesa Land Partnership	11,793,178	0.29
Macerich Fiesta Mall LLC	10,577,980	0.26
TRW Vehicle Safety Systems Inc.	10,541,733	0.26
Mesa Financial Plaza Investors LLC	10,026,694	0.24
Stapley Office Inc.	9,462,814	0.23
Cox Communications Inc.	8,624,202	0.21
AT&T Property Tax	7,920,727	0.19
Total	$149,523,547	3.63 %

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.

(w) Some of the major taxpayers are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the Filings can be obtained from the public reference section of the Commission at prescribed rates. In addition, the Filings may also be inspected at the offices of the NYSE at 20 Broad Street, New York, NewYork 10005. The filings may also be obtained through the internet on the SEC's EDGAR database at www. sec.gov.

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.

Certain residential property owners sixty-five years of age and older may obtain a freeze against property valuation increases (the "Property Valuation Protection Option") if the owner's 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." 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 translate to the secondary assessed value of the affected property.

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 value of property (after application of the assessment ratio to the limited property value of such property,) which are used for the maintenance and operation of counties, cities/towns, school districts, community college districts and the State. The State does not currently levy ad valorem taxes. 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 current year's full cash value and last year's limited property 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 preceding 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 1% of the full cash value of such property.

To offset the effects of the primary system limitation of tax levies on residential property to 1% of the primary full cash value, the limitation is applied to the school district's taxes and the State compensates the school district by providing additional State aid so there is no impact on the revenue available to the school district.

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

On or before the third Monday in August each year the Board of Supervisors of the County prepares the tax roll setting forth the valuation by taxing district of all property in the County subject to taxation. The Assessor of the County is required to complete the assessment roll by December 15th of the year prior to the levy. 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 the parcel of property in order to determine the total tax owed by each property owner. Any decrease in the value of the assessment roll established in December from the value used on the third Monday in August could reduce the aggregate amount of taxes collected and needed by each jurisdiction.

Delinquent Tax Procedures

The property taxes due the City are billed, along with State, County and other taxes, each September and are due and payable in two installments on October 1 and March 1 and become delinquent on November 1 and May 1. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month. (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 judgment 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. Such taxes might constitute an unsecured and possibly noninterest bearing administrative expense payable only to the extent that the secured creditors of a taxpayer are oversecured, and then possibly only on the prorated basis with other allowed administrative claims. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on property of a taxpayer within the City. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on delinquent property.

It cannot be determined what impact any deterioration of the financial conditions of any taxpayer, whether or not protection under the Bankruptcy Code is sought, may have on payment of or the secondary market for the Bonds. Neither the City, the Financial Advisor, the Underwriter 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.

In the event the County is expressly enjoined or prohibited by law from collecting taxes due from any taxpayer, such as may result from the bankruptcy of a taxpayer, any resulting deficiency could be collected in subsequent tax years by adjusting the City's tax rate charged to non-bankrupt taxpayers during such subsequent tax years.

Example of Real and Secured Property Taxes Levied and Collected (x)
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 85.80% 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 2007/08. 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 (y)		Cumulative Collection to February 29, 2008 (y)	
Fiscal Year	Tax Rate	District Tax Levy	Amount	% of Levy	Amount	% of Levy
2007/08	$5.4292	$189,301,751	(z)		$105,902,085 (z)	55.94 %
2006/07	6.3737	186,709,177	$179,941,417	96.38 %	185,786,946	99.50
2005/06	6.3865	177,610,127	169,104,497	95.21	176,212,965	99.21
2004/05	6.6744	171,804,165	163,846,208	95.18	170,237,137	99.09
2003/04	7.1522	170,633,934	163,103,595	95.59	170,057,636	99.66
2002/03	7.7938	171,626,915	164,552,821	95.88	171,108,178	99.70

Source: Maricopa County Treasurer's Office.

(y) 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.

(z) 2007 taxes in course of collection:
First installment due 10-01-07, delinquent 11-01-07.
Second installment due 03-01-08, delinquent 05-01-08.

On May 16, 2006, the qualified electors of the City voted not to impose a property tax for operation and maintenance purposes for fiscal year 2006/07 and later years. The electors did, however, approve an increase in the City's sales tax rates.

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APPENDIX C

CITY OF MESA, ARIZONA
UTILITY SYSTEMS INFORMATION

Electric System

The City has operated its own electric utility since 1917. The electric utility service area covers approximately six square miles including the heart of the city. During the calendar year ending December 2007, Mesa's electric system served approximately on average 13,814 residential and 2,490 commercial and other customers. There are no industrial customers in Mesa's electric service area. An annual summer system peak demand of approximately 91,500 kW and system energy requirements of 385,421,000 kWh were experienced at the Rogers Substation point of supply.

Mesa's power and transmission resource scheduling and utilization were managed through Mesa's participation in the Resources Management Services program ("RMS") administered by the Western Area Power Administration ("Western") of the United States Department of Energy. Western provides scheduling, dispatching and accounting functions and purchases supplemental power as needed on a monthly, daily and real-time basis.

The RMS group consists of the City of Mesa, Electrical District Number Two (ED-2), Town of Fredonia, Aha Macav Power Service, and Cortaro-Marana Irrigation and Drainage District. As part of the RMS group, these entities pool loads and resources to achieve the benefits of diversity and greater economies of scale when performing purchased power transactions.

Mesa's 2007 supply side resources portfolio was comprised of long-term purchased power agreements and gas-fired electric generation facilities. Mesa contracts for power from a variety of entities to supply its total load without relying on a single supplier and as a member in RMS, has access to the wholesale power supply market and the ability to engage in short-term firm and non-firm transactions.

Current power supply resources for the City of Mesa Utilities Department are as follows:

		Contract Amount (Megawatts)	
Electric Power Resources	Expiration Dates	Summer	Winter
Western Area Power Administration (1):			
Parker-Davis Project	2028	10.5	8.0
Colorado River Storage Project	2024	4.3	3.4
Arizona Electric Power Cooperative (2):			
Long-Term Agreement	2008	15.0	15.0
Public Service Company of New Mexico (3)	2012/13	35.0	10.0
Public Service Company of New Mexico (4)	2013	10.0	0.0

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

(2) The City and Arizona Electric Power Cooperative (AEPCO) have entered into an 18-year firm power sale agreement for demand with associated energy for the period of December 18, 1989 through December 31, 2008.

(3) The City and Public Service Company of New Mexico ("PNM") are parties to a firm power purchase and sale agreement entered into December 2003 consisting of a base load product for 10 Megawatts and three summer

peaking products up to an additional 20 Megawatts. This agreement will be phased out beginning at the end of August 2012, September 2012 and May 2013.

(4) The City and PNM are also parties to a 10 Megawatt June through October firm power purchase and sale agreement entered into June 2004, with a contract in-service date of July 1, 2004 and termination date of October 31, 2013.

Mesa currently owns natural gas–fired generation facilities located within Mesa's electric service area at the Kellwood and Julian substations. These facilities consist of 16 natural gas-fired Internal Combustion (IC) engine-generator sets with a nameplate rating capacity of 800 kW per unit. Eight units are located at each substation site. Mesa assumes these facilities to have a combined net dependable capacity of 10.0 MW at time of system peak demand in summer although the units are operable only during emergency conditions due to environmental issues. Given the environmental issues and high operational costs, sale of the units has been proposed.

Mesa's purchased power and energy resources are contractually transmitted over Western's Parker-Davis and Pacific Inter-tie transmission systems to Western's 500 kV and 230 kV substation facilities and then to the 230 kV Rogers Substation, jointly owned by Salt River Project ("SRP"), Western and Mesa.

The power and energy are then transmitted via Mesa's two 69 kV lines to the electrical distribution facilities owned and operated by the Utilities Department's Electric Division and then distributed to Mesa's service area through 13 substations and the associated distribution lines. There are approximately 180 miles of overhead primary lines and approximately 225 miles of underground primary lines that distribute power to the distribution transformers.

Electrical Utility Industry Deregulation

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

Consequently, the City's electric service area of approximately six square miles is now open to competition and the City's covenant not to allow competing utility services is moot. By the same token, however, the City is now enabled to compete for customers throughout the City limits, which encompass approximately 125 square miles.

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

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

Schedule of Current Electric System Fees and Charges

Description of Electric Services	Fee/Charge*
Residential Electric Service = E1.1	
Monthly Bill Per Meter	
May/October	
Customer Charge	$ 5.71
Energy Charge**	
KWH First 1200 KWH	0.05128
KWH All Additional	0.04822
Energy Cost Adjustment Factor (all KWH)	0.01525
November/April	
Customer Charge	5.71
Energy Charge**	
KWH First 800 KWH	0.03765
KWH All Additional	0.01633
Energy Cost (etc.)	0.01039
Minimum	5.71
Non-Residential Service (Single Phase)	
Monthly Bill Per Meter	
May/October	
Customer Charge	$ 6.22
Demand Charge	
Generation	
KW First 50 KW	0.00
KW All Additional KW	3.52
Distribution	
KW First 50 KW	0.00
KW All Additional KW	0.03968
Energy Charge**	
Generation	0.02450
Distribution	
KWH First 15,000 KWH	0.06491
KWH 15,001 - 75,000 KWH	0.04125
All Additional	0.02901
November/April	
Customer Charge	6.22
Demand Charge	
Generation	
KW First 50 KW	0.00
KW All Additional KW	3.20

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

** The energy adjustment factor was implemented November 1, 2004, which allows for the full recovery of the costs of fuel and purchased power costs.

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.

Schedule of Electric System Rate Increases (2003-2007)

Date	Rate Increase
August 1, 2007	None
August 1, 2006	None
August 1, 2005	None
August 1, 2004	None
August 1, 2003	2.00%

Source: City of Mesa Finance Department.

Schedule of Electric System Customers
(Fiscal Years 2002/03through 2006/07)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2006/07	13,814	2,493	19	16,326
2005/06	12,975	2,273	193	15,441
2004/05	13,880	2,290	206	16,376
2003/04	14,050	2,204	201	16,455
2002/03	13,137	2,463	197	15,797

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	2006/07 Electric System Fees/Charges
Mesa Public Schools	$1,209,376.00
Mesa General Hospital	463,985.00
Bashas/Food City	437,306.00
Mesa Tribune	351,282.00
Brown & Brown Chevrolet	319,172.00
Pacifica Centennial Hotel	309,532.00
AT&T/Mountain Bell	308,660.00
Mesa Arizona LDS Temple	227,206.00
Mesa Cold Storage Inc.	226,685.00
DPI-Taylor Bros & Epicurean Provisions	203,176.00
Total	$4,056,380.00
Total As a Percent of Total 2006/07 Electric System Operating Revenue	11.76%

Source: City of Mesa Finance Department.

Natural Gas System

The American Public Gas Association ranks the City of Mesa's natural gas system as the 10th largest publicly owned gas system (94th largest gas system public and private) in the United States. The City's natural gas service territory is comprised of two major service areas: 1) the City service area of approximately 90 square miles within the City limits, and 2) the Magma service area, a 236 square mile certificated system located southeast of Mesa in Pinal County, Arizona. The City's combined natural gas system consists of 18,000 miles of distribution mains and serve approximately 52,000 customers as of December 2007.

The City continues to purchase its natural gas supplies from National Fuel Marketing and Coral Energy Resources, LP, under agreements signed in March 2005. The natural gas comes from both the San Juan Basin in New Mexico and the Permian Basin in West Texas. Natural gas is transported via a major pipeline system owned and operated by El Paso Natural Gas Company ("EPNG"), under the terms of two transportation service agreements ("TSA") recently signed and dated February 1, 2007. The new TSA's supersede the 1991 TSA and provide the City with the ability to transport its total daily natural gas supplies to four city gate stations located in both the City and Magma natural gas service territories. Given the new TSA's and the recent settlement of EPNG's 2005 rate case filing, the City is able to transport up to 32,000 Decatherms per day during the month of January.

The City of Mesa natural gas system experienced a natural gas peak delivery of 25,000 Decatherms per day in 2007. Facilities and distribution infrastructure necessary to provide service to the majority of the natural gas service area within the City limits has been constructed. Continuing growth of the City in the east and southeast service areas will require the extension of distribution mains to developing residential and commercial areas. The City's natural gas service territories are currently served by four City gate stations. A fifth gate station will be added in the Magma natural gas service territory to complement ongoing facility upgrades and expansions to meet projected customer growth.

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

Schedule of Current Natural Gas System Fees and Charges

Description of Natural Gas Services	Fee/Charge
Residental Gas Service = G1.1	
May 1st through October 31st	
Monthly Service Charge	$ 8.68
First 25 Therms	0.5998 / therm
All Additional Therms	0.1944 / therm
November 1st through April 30th	
Monthly Service Charge	$ 11.31
First 25 Therms	0.5998 / therm
All Additional Therms	0.4419 / therm
General Gas Service = G3.1	
May 1st through October 31st	
Monthly Service Charge	$ 26.05
First 1200 Therms	0.4737 / therm
All Additional Therms	0.2841 / therm
November 1st through April 30th	
Monthly Service Charge	$ 34.74
First 1200 Therms	0.5130 / therm
All Additional Therms	0.4103 / 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 2002/03through 2006/07)

Fiscal Year	Residential Customers	Commercial Customers	Total Customers
2006/07	49,003	2,529	51,532
2005/06	47,247	2,529	49,776
2004/05	44,371	2,489	46,860
2003/04	41,017	2,422	43,439
2002/03	37,840	2,488	40,328

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 (2003-2007)

Date	Rate Increase
August 1, 2007	5.00 %
August 1, 2006	5.00
August 1, 2005	3.00
August 1, 2004	4.00
August 1, 2003	3.00

Schedule of the 10 Largest Natural Gas System Customers

Natural Gas System Customer	2006/07 Natural Gas System Fees/Charges
Regional Public Transit Authority	$1,549,751.00
Meas Public Schools	857,162.00
Empire Southwest	855,981.00
Mesa Lutheran Hospital	391,413.00
Banner Sesert Medical Center	380,603.00
The Boeing Company	322,551.00
Sterling Phillips / Diamonback LLC	188,099.00
Cal-Am Properties, Inc.	165,428.00
TRW VSSI - Mesa II	161,092.00
Holiday MHC Limited	131,089.00
Total	$ 5,003,169.00
Total As a Percent of Total 2006/07 Natural Gas System Operating Revenue	11.28%

Source: City of Mesa Finance Department.

Water System

The water utility system of the City currently serves a population of over 456,000, residing within a 170 square mile area. The water system currently consists of approximately 134,000 residential and commercial connections.

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

The City has 18 storage facilities in the water system service area capable of storing 84 million gallons. The City has approximately 2,250 miles of water distribution mains. A backflow prevention program has been implemented and enforced to protect the quality of the drinking water from possible sources of contamination. The total current capacity of the water system is approximately 214 million gallons per day (mgd). The record peak day during 2005 required approximately 138 mgd. The average of 2007 was 97.71 mgd.

Surface water from the Salt and Verde Rivers is treated at the Val Vista Water Treatment Plant. The plant is jointly owned by Mesa and the City of Phoenix. Currently, the plant has a treatment capacity of 220 mgd, of which Mesa owns 90 mgd. The plant produces approximately 44% of the water used by the City.

Colorado River water is delivered to the City via the Central Arizona Project (CAP) Canal. The water is treated at the Mesa CAP Water Treatment Plant, which recently was expanded to 72 mgd and produces approximately 33% of the City's water.

Groundwater wells produce the remaining 23% of the water used in the City. The City currently has 35 groundwater wells with a pumping capacity of approximately 52 mgd. The continued development of new wells provides water supplies for future growth, in case of drought, and as a backup to the surface water system. The percentage of City water from groundwater wells has been reduced from approximately 56% in 1980.

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

The Southwestern United States is currently in the midst of a drought. The City has developed a diverse portfolio of resources that mitigates the potential effects of the drought for the near term. The City adopted a Drought Management Plan in October 2003 in order to ensure that the City is able to continue to meet the needs of existing customers if the drought persists. As a part of the Drought Management Plan, the City's Utilities Department is developing pricing options that encourage conservation, while insulating against the loss of revenue.

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

Schedule of Current Water System Fees and Charges

Description of Water System Services	Fee/Charges
Monthly Minimum Bill - All Classes, All Zones	
3/4 Inch	$ 10.78
1 Inch	12.85
1 1/2 Inch	20.58
2 Inches	29.01
3 Inches	63.84
4 Inches	104.91
6 Inches	206.86
8 Inches	309.48
10 Inches	421.58

Monthly Volume Charge - Residential	Fees/Charges
First 12,000 Gallons of Water	$2.15/1,000 Gallons
Additional Usage	$3.24/1,000 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 (2003-2007)

Date	Rate Increase
August 1, 2007	4.50 %
August 1, 2006	6.60
August 1, 2005	3.00
August 1, 2004	4.50
August 1, 2003	4.00

Source: City of Mesa Finance Department.

Schedule of Water System Customers
(Fiscal Years 2002/03 through 2006/07)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Total Customers
2006/07	120,392	9,841	4,331	134,564
2005/06	119,927	9,534	4,332	133,793
2004/05	118,066	9,503	4,609	132,178
2003/04	116,805	9,148	4,574	130,527
2002/03	113,786	9,115	4,548	127,449

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	2006/07 Water System Fees/Charges
Mesa Public Schools	$1,307,456.00
Arizona State University East	456,395.00
Gilbert Public Schools	325,649.00
Cal-Am Properties, Inc.	299,919.00
Las Sendas Community Association	269,104.00
Banner Desert Medical Center	263,374.00
IMT-LB Del Coronado, LLC	215,215.00
Parkwood Ranch Community Master Association	163,932.00
Maricopa County Community College	148,770.00
The Boeing Company	146,880.00
Total	$3,596,694.00
Total as a Percent of Total 2006/07 Water System Operating Revenue	4.03%

Source: City of Mesa Finance Department.

Wastewater System

The City's gravity wastewater collection system currently serves approximately 116,000 residential and commercial connections. Three water reclamation plants (WRP) and one wastewater treatment plant (WWTP) provide wastewater treatment for the City of Mesa.

The Phoenix-operated 91st Avenue WWTP, which is jointly owned by the City of Mesa and four other nearby municipalities within the Sub-Regional Operating Group (SROG), currently has a 175 mgd capacity. Mesa's portion of that amount is approximately 30 mgd.

The City owns and operates three water reclamation plants. The Northwest Water Reclamation Plant (NWWRP) currently has a treatment capacity of 18 mgd with an ultimate capacity of 24 mgd. The NWWRP uses recharge basins to recharge approximately 2,200 acre-feet of water annually. The plant also has sludge processing capabilities.

The Southeast Water Reclamation Plant (SEWRP) has a plant capacity of 8 mgd. The ultimate capacity of the plant is 12 mgd. The plant will begin sending its bio-solids to the GWRP in mid-2008.

The Greenfield Water Reclamation Plant (GWRP) is a regional plant operated by the City of Mesa, and co-owned with the Towns of Gilbert and Queen Creek. The GWRP currently has a treatment capacity of 16 mgd of which Mesa owns 4 mgd. The ultimate treatment capacity of the plant is 56 mgd with Mesa's portion of 24 mgd. The plant currently has bio-solids processing capacity of 24 mgd of which Mesa owns 12 mgd. The ultimate bio-solids capacity of the plant is 64 mgd, of which Mesa owns 36 mgd.

The City has approximately 1,600 miles of sewer mains, 15 lift stations, 14 sulfide stations (plus one on the Salt River Pima Maricopa Indian Community (SRPMIC) which the City operates), 5 metering stations, and 10 diversion structures in its wastewater collection system. In addition, the City is part owner in the Baseline/Southern interceptors, and the Salt River Outfall (SRO) interceptor mains that transport sludge and wastewater to the 91st Avenue WWTP. An update to the City's wastewater system master plan was completed in August 2003, and the plan will be revised in 2008-09.

The City's wastewater system and current agreements allow for a treatment capacity of approximately 60 mgd. The peak day during calendar year 2007 was approximately 48 mgd. The following tables provide information with respect to the City's wastewater utility.

Schedule of Current Wastewater System Fees and Charges

Description of Wastewater System Services	Fee/Charge
Residential Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$7.14
User Charge Component	2.29
+ User Charge Component (average winter water consumption)	1.02 / 1,000 gallons
+ Capital Related Component (average winter water consumption in excess of 5,000 gallons)	1.86 / 1,000 gallons
General Commercial Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$7.46
User Charge Component	2.29
+ User Charge Component (all water used)	0.02 / 1,000 gallons
+ Capital Related Component (all water used in excess of 5,000 gallons)	1.86 / 1,000 gallons
Multi-Unit Dwelling Sewer Service - Inside City	
Monthly Bill	
Minimum	
Capital Related Component	$7.46
User Charge	2.29
+ User Charge Component (all water used)	1.02 / 1,000 gallons
+ Capital Related Component (all water used in exess of 5,000 gallons)	1.86 / 1,000 gallons
Industrial Sewer Service - Inside City	
Monthly Bill	
Capital Component	
Flow (in excess of 5,000 gallons)	$2.982 / 1,000 gallons
BOD (in excess of lbs. contributed in first 5,000 gallons)	0.339 / pound
SS (in excess of lbs. contributed in first 5,000 gallons)	0.245 / pound
User Charge Component	
Flow	$0.533 / 1,000 gallons
BOD	0.260 / pound
SS	0.155 / pound
Minimum - Capital Component (includes use of 5,000 gallons)	20.32
User Charge Billing Component	2.29

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 (2003-2007)

Date	Rate Increase
August 1, 2007	7.00%
August 1, 2006	5.00
August 1, 2005	3.00
August 1, 2004	6.00
August 1, 2003	5.00

Source: City of Mesa Finance Department.

Schedule of Wastewater System Customers
(Fiscal Years 2002/03 through 2006/07)

Fiscal Year	Residential Customers	Commercial Customers	Multi-Unit Customers	Industrial Customers	Other Customers	Total Customers
2006/07	106,426	4,674	4,052	6*	436	115,595
2005/06	105,832	4,441	4,168	7*	421	114,869
2004/05	104,226	4,252	4,177	7*	418	113,080
2003/04	102,906	4,110	4,133	5*	419	111,573
2002/03	101,427	4,157	4,397	17	539	110,537

* No longer reported as industrial, per source doc.

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	2006/07 Wastewater System Fees/Charges
Mesa Public Schools	$ 697,090.00
Town of Gilbert	621,245.00
Cal Am Properties Inc.	307,346.00
Arizona State University East	294,121.00
IMT-LB Del Coronado, LLC (Del Coronado Apts)	215,669.00
Banner Desert Medical Center	208,789.00
Viewpoint RV Resort, LLC	158,872.00
INTL Rectifier EPT Services	147,938.00
The Boeing Company	146,664.00
Venture Out of Mesa	143,161.00
Total	$ 2,940,895.00
Total as a Percent of Total 2006/07 Wastewater System Operating Revenue	5.40%

Source: City of Mesa Finance Department.

Solid Waste System

The City's solid waste system is the exclusive provider of solid waste collection services to single and multi-family residences located within the City. Standard residential solid waste service includes once per week collection of trash and once per week collection of recyclables. Single-family residences and many multi-family residences are serviced using automated side-loader trucks, thereby reducing the personnel required from a collection crew to a single driver/operator. The residential solid waste system currently consists of approximately 115,000 customers. The City's solid waste system is also the exclusive provider of solid waste collection services to apartment complexes using front loader trucks. The City currently has approximately 2,263 customers who have metal bin service.

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

The City's solid waste collection system has implemented both a blue barrel and green barrel curbside recycling program. A 29.6% diversion rate in materials going to landfills is expected from these programs, saving the City considerable expense.

In December 2005, the City extended its agreement through the year 2015 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.

In September 2005, the City entered into agreements with 3 additional landfills and/or Transfer Stations for the disposal of approximately 15% of the total solid waste. These additional facilities will allow the City to reduce our overall operating costs. These 3 facilities are located in the Southeast section of the City where the majority of the growth is occurring. These facilities meet 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: $22.66 per unit for single dwellings units, duplexes, triplexes and fourplexes when the water account servicing the unit or units is active or where the resident resides within Mesa Solid Waste service area, for once per week residential solid waste collection and once per week recycling collection (90 gallon individual garbage barrel/440 gallon shared garbage barrel).

$20.22 per unit for single dwelling units when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for once per week residential Solid waste collection and once per week recycling collection (60 gallon garbage barrel).

Rate R1.21: $10.70 per each additional 60/90 gallon solid waste container collected on same day as first solid waste container.

Rate R1.23: $24.31 per unit for the first barrel in addition to the above R1.2 rate for twice per week solid waste collection, and $10.82 for each additional barrel at twice per week.

Rate R1.24: $20.22 per unit for multiple dwelling units with five to twenty units when the water account servicing the units is active, or where the resident resides within Mesa Solid Waste service area for once per week solid waste collection and once per week recycling collection.

Rate R1.26: $22.66 per unit for duplexes, triplexes and fourplexes when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for metal bin service.

Rate R1.28: $5.35 per each 90 gallon green waste container collected once per week.

A $0.47 per month household hazardous waste fee will be assessed to each dwelling unit.

A $19.99 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: $22.66 for the first 90 gallon container for once per week solid waste collection and once per week recycling collection.

$20.22 for the first 60 gallon container for once per week solid waste collection and once per week recycling collection

Rate R3.81: $10.70 per each additional 60/90 gallon solid waste container for once per week solid waste collection on same geographic in-zone day as the first barrel.

Rate R3.82: $24.31 per unit for the first barrel in addition to the above R3.8 rate for twice per week solid waste collection, and $10.82 for each additional barrel at twice per week.

A $19.99 fee will be assessed per each service call to collect normal volumes of bundled or properly prepared bulk items.

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 (2003-2007)

Date	Rate Increase
August 1, 2007	5.00%
August 1, 2006	5.00
August 1, 2005	3.00
August 1, 2004	5.00
August 1, 2003	5.00

Source: City of Mesa Finance Department.

Schedule of Solid Waste System Customers
(Fiscal Years 2002/03through 2006/07)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2006/07	112,812	2,263	221	115,296
2005/06	110,734	2,271	101	113,106
2004/05	109,425	2,146	204	111,775
2003/04	107,225	2,030	155	109,410
2002/03	103,671	2,520	190	106,381

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	2006/07 Solid Waste System Fees/Charges
Mesa Public Schools	$ 330,961.00
nt RV Resort, LC	145,649.00
Cal-Am Properties, Inc.	138,458.00
Casa Fiesta Tempe Ltd. Ptsp.	106,916.00
Banner Desert Medical Center	106,879.00
Sierra Village Associates	102,747.00
Mobile Home Communities	101,137.00
Banner Baywood Medical Center	79,705.00
Property Growth Fund II, LLC	78,353.00
Williams Gateway Airport Authority	74,955.00
Total	$ 1,265,760.00
Total as a Percent of Total 2006/07 Solid Waste System Operating Revenue	3.01%

Source: City of Mesa Finance Department.

Billing and Collection Procedures

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

The City's collection procedures for delinquent utility accounts involve a series of billings and notices with a discontinuance of service at the end of 74 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, 2007

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

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Cronstrom
Osuch & Company
Certified Public Accountants
A PROFESSIONAL CORPORATION

1987 20th 2007

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 17, the Public Safety Personnel Retirement System Schedule of Funding Progress on pages 59 and 60 and the budgetary comparison information on pages 81 through 83 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

October 31, 2007

CITY OF MESA, ARIZONA
EXHIBIT A-1
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 152,396,564	$ 44,043,178	$ 196,439,742
Investments	47,626,389	15,711,730	63,338,119
Receivables:			
Accounts and Miscellaneous (Net of Allowances)	24,352,067	27,265,433	51,617,500
Accrued Interest	1,429,627	1,253,912	2,683,539
Due From Other Governments	25,979,113	642,346	26,621,459
Internal Balances	184,871	(184,871)	-
Inventory	4,397,945	-	4,397,945
Prepaid Costs	831,245	112,629	943,874
Deposits	1,222,136	15,077,177	16,299,313
Restricted Assets:			-
Cash and Cash Equivalents	11,505,094	86,431,246	97,936,340
Investments	-	9,990,468	9,990,468
Accounts Receivable	12,339,664	-	12,339,664
Customer Deposits	-	3,548,008	3,548,008
Unamortized Bond Issue Costs	1,527,680	3,227,571	4,755,251
Investment in Joint Ventures	32,732,215	245,468,246	278,200,461
Capital Assets:			
Non-Depreciable	335,085,655	252,787,503	587,873,158
Depreciable, Net	855,603,126	852,219,418	1,707,822,544
Total Assets	1,507,213,391	1,557,593,994	3,064,807,385
LIABILITIES			
Warrants Outstanding	5,791,366	-	5,791,366
Accounts Payable	17,969,002	9,475,110	27,444,112
Other Accrued Expenses	14,537,365	-	14,537,365
Customer and Defendant Deposits	8,090,562	-	8,090,562
Compensated Absences	1,039,333	-	1,039,333
Liabilities Payable From Restricted Assets	15,281,287	35,321,886	50,603,173
Noncurrent Liabilities:			
Due Within One Year	30,277,765	16,555,607	46,833,372
Due in More Than One Year	398,979,829	724,612,224	1,123,592,053
Total Liabilities	491,966,509	785,964,827	1,277,931,336
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	791,591,633	366,497,841	1,158,089,474
Restricted For:			
Quality of Life Projects	46,735,437	-	46,735,437
Convention Center	-	93,934	93,934
Airport	-	4,403,090	4,403,090
Golf Courses	-	26,529	26,529
Capital Projects	21,592,231	58,610,628	80,202,859
Debt Service	-	26,997,780	26,997,780
Bond Indentures	-	6,624,363	6,624,363
Grant Programs	1,373,918	-	1,373,918
Transportation Programs	25,405,450	-	25,405,450
Water, Wastewater & Solid Waste Improvements	-	62	62
Unrestricted	128,548,213	308,374,940	436,923,153
Total Net Assets	$ 1,015,246,882	$ 771,629,167	$ 1,786,876,049

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

CITY OF MESA, ARIZONA
EXHIBIT A-2
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	$ 48,200,767	$ 17,622,519	$ 824,747	$ -
Public Safety	232,099,968	14,486,944	4,204,394	85,960
Cultural-Recreational	64,591,583	17,651,857	2,287,652	-
Community Environment	91,664,096	3,115,368	67,181,465	44,772,262
Interest on Long-Term Debt	18,037,348	-	-	-
Total Government Activities	454,593,762	52,876,688	74,498,258	44,858,222
Business-type Activities:				
Electric	26,280,947	34,518,898	-	50,000
Gas	37,825,634	45,250,476	5,009	127,641
Water	59,964,524	92,007,207	66,619	6,198,782
Wastewater	60,603,399	55,398,349	56,000	13,243,503
Solid Waste	27,891,495	42,894,663	18,986	139,780
Airport	2,720,953	2,953,825	-	964,535
Golf Course	2,601,521	2,456,596	-	-
Convention Center	5,666,507	4,745,578	-	-
District Cooling	1,090,931	192,972	-	-
Total Business-type Activities	224,645,911	280,418,564	146,614	20,724,241
Total Primary Government	$ 679,239,673	$ 333,295,252	$ 74,644,872	$ 65,582,463

General Revenues:
Sales Taxes
Occupancy Taxes
Unrestricted State Shared Revenue
Contributions Not Restricted to Specific Programs
Unrestricted Investment Income
Miscellaneous
Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT A-2 (Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	**Business-type Activities**	**Total**
$ (29,753,501)	$ -	$ (29,753,501)
(213,322,670)	-	(213,322,670)
(44,652,074)	-	(44,652,074)
23,404,999	-	23,404,999
(18,037,348)	-	(18,037,348)
(282,360,594)	-	(282,360,594)
-	8,287,951	8,287,951
-	7,557,492	7,557,492
-	38,308,084	38,308,084
-	8,094,453	8,094,453
-	15,161,934	15,161,934
-	1,197,407	1,197,407
-	(144,925)	(144,925)
-	(920,929)	(920,929)
-	(897,959)	(897,959)
-	76,643,508	76,643,508
(282,360,594)	76,643,508	(205,717,086)
155,817,051	-	155,817,051
2,389,528	-	2,389,528
113,048,782	-	113,048,782
14,037,707	-	14,037,707
7,824,612	8,125,127	15,949,739
7,053,840	428,962	7,482,802
61,439,940	(61,439,940)	-
361,611,460	(52,885,851)	308,725,609
79,250,866	23,757,657	103,008,523
935,996,016	747,871,510	1,683,867,526
$ 1,015,246,882	$ 771,629,167	$ 1,786,876,049

CITY OF MESA, ARIZONA
EXHIBIT A-3
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 75,790,189	$ 4,753,715	$ 38,534,971	$ 119,078,875
Investments	39,631,349	-	2,998,140	42,629,489
Accounts Receivable (Net of Allowances)	23,709,185	-	109,047	23,818,232
Accrued Interest Receivable	1,024,244	63,362	130,389	1,217,995
Due From Other Governments	19,850,104	4,008,695	2,086,355	25,945,154
Due From Other Funds	248,200	-	-	248,200
Prepaid Costs	304,942	-	1,935	306,877
Deposits	1,222,136	-	-	1,222,136
Restricted Assets:				
Cash and Cash Equivalents	91,652	-	11,413,442	11,505,094
Accounts Receivable	3,684,929	-	8,654,735	12,339,664
Total Assets	$ 165,556,930	$ 8,825,772	$ 63,929,014	$ 238,311,716
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants Outstanding	$ 5,791,366	$ -	$ -	$ 5,791,366
Accounts Payable	12,682,767	946,721	3,192,851	16,822,339
Due To Other Funds	-	-	248,200	248,200
Customer and Defendant Deposits	8,057,500	-	33,062	8,090,562
Compensated Absences	1,039,333	-	-	1,039,333
Payable From Restricted Assets:				
Accounts Payable	-	-	3,107	3,107
Accrued Lease Interest Payable	-	-	121,421	121,421
Accrued Bond Interest Payable	-	-	8,850,975	8,850,975
Deferred Revenue	3,779,404	-	8,840,393	12,619,797
Matured General Obligation Bonds Payable	-	-	659,706	659,706
Matured Highway User Revenue Bonds Payable	-	-	165,000	165,000
Matured Capital Leases Payable	-	-	1,613,233	1,613,233
Total Liabilities	31,350,370	946,721	23,727,948	56,025,039
Fund Balances				
Reserved For Encumbrances	12,613,797	1,624,171	4,259,212	18,497,180
Reserved For Prepaid Costs	304,942	-	1,717	306,659
Reserved For Quality of Life Projects	46,735,437	-	-	46,735,437
Reserved For Transportation Programs	17,522,861	-	-	17,522,861
Reserved For Debt Service	-	-	-	-
Unreserved, reported in:				
General Fund	57,029,523	-	-	57,029,523
Special Revenue Funds	-	6,254,880	18,372,347	24,627,227
Capital Project Funds	-	-	17,567,790	17,567,790
Total Fund Balances	134,206,560	7,879,051	40,201,066	182,286,677
Total Liabilities and Fund Balances	$ 165,556,930	$ 8,825,772	$ 63,929,014	$ 238,311,716

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

CITY OF MESA, ARIZONA
EXHIBIT A-4
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund Balances - total governmental funds	$	182,286,677
Amounts reported for governmental activities in the statement of net assets are different because (also see Note 2 to the basic financial statements):		
Capital assets used in governmental activites are not financial resources and therefore not reported in the governmental funds.		1,185,846,063
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		34,259,895
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(428,278,531)
Deferred revenue for long-term rehabilitation loans and special assessments is shown on the governmental funds, but is not deferred on the statement of net assets.		8,751,952
Internal service funds are used by management to charge the costs of certain activites to individual funds.		32,380,826
Net assets of the governmental activities - statement of net assets	$	1,015,246,882

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

CITY OF MESA, ARIZONA
EXHIBIT A-5
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Sales Taxes	$ 155,817,051	$ -	$ -	$ 155,817,051
Occupancy Taxes	2,389,528	-	-	2,389,528
Special Assessments	-	-	416,906	416,906
Licenses and Permits	14,288,518	-	5,839,156	20,127,674
Intergovernmental	135,220,364	39,980,272	15,624,988	190,825,624
Charges For Services	18,795,441	58,354	3,185,260	22,039,055
Fines and Forfeitures	9,685,812	70,847	519,941	10,276,600
Investment Income	4,596,310	469,493	1,397,308	6,463,111
Miscellaneous	4,816,072	395,957	1,153,596	6,365,625
Total Revenues	345,609,096	40,974,923	28,137,155	414,721,174
Expenditures:				
Current:				
General Government	40,661,807	-	-	40,661,807
Public Safety	209,769,102	-	772,867	210,541,969
Cultural-Recreational	54,699,422	-	11,912	54,711,334
Community Environment	11,104,285	34,829,422	19,380,553	65,314,260
Debt Service:				
Principal Retirement	-	-	8,357,577	8,357,577
Interest on Bonds	-	-	17,236,984	17,236,984
Interest on Leases	-	-	913,726	913,726
Service Charges	-	-	56,768	56,768
Capital Outlay	32,185,129	2,475,813	42,813,653	77,474,595
Total Expenditures	348,419,745	37,305,235	89,544,040	475,269,020
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,810,649)	3,669,688	(61,406,885)	(60,547,846)
Other Financing Sources (Uses):				
Transfers In	68,252,134	-	31,648,671	99,900,805
Transfers Out	(20,486,012)	(6,566,787)	(6,180,434)	(33,233,233)
Face Amount of Bonds Issued	-	-	30,681,840	30,681,840
Premium on Issuance of Bonds	-	-	573,254	573,254
Proceeds From Obligations of Capital Leases	-	-	6,911,382	6,911,382
Total Other Financing Sources (Uses)	47,766,122	(6,566,787)	63,634,713	104,834,048
Net Change in Fund Balances	44,955,473	(2,897,099)	2,227,828	44,286,202
Fund Balances - Beginning	89,251,087	10,776,150	37,973,238	138,000,475
Fund Balances - Ending	$ 134,206,560	$ 7,879,051	$ 40,201,066	$ 182,286,677

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

CITY OF MESA, ARIZONA

EXHIBIT A-6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	$	44,286,202
Amounts reported for governmental activities in the statement of activities are different because (also see Note 2 to the basic financial statements):		
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		3,583,809
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(686,116)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($77,474,595) exceeded depreciation ($51,871,713) in the current period.		25,602,882
The net effect of miscellaneous transactions involving capital assets (e.g., donations, transfers and disposals) is to increase net assets.		26,338,174
The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes financial resources of governmental funds. Neither transaction has any effect on net assets.		(29,235,645)
Governmental funds report the effect of bond issuance costs, premiums and deferred amounts related to refunding when the new debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(35,632)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		9,397,192
Change in net assets of the governmental activities - statement of activities	$	79,250,866

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

CITY OF MESA, ARIZONA
EXHIBIT A-7
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 44,043,178	$ 33,317,689
Investments	15,711,730	4,996,900
Accounts Receivable (Net of Allowances of $1,800,700)	27,265,433	132,223
Accrued Premiums Receivable	-	401,612
Accrued Interest Receivable	1,253,912	211,632
Due From Other Governments	642,346	33,959
Inventory	-	4,397,945
Prepaid Costs	112,629	524,368
Deposits	15,077,177	-
Restricted Assets:		
Cash and Cash Equivalents	17,072,368	-
Investments	9,990,468	-
Customer Deposits	3,548,008	-
Total Current Assets	134,717,249	44,016,328
Noncurrent Assets:		
Restricted Assets:		
Impact & Development Fees:		
Cash and Cash Equivalents	62	-
Bond Replacement, Extensions and Reserves:		
Cash and Cash Equivalents	6,766,117	-
Capital Projects:		
Cash and Cash Equivalents	62,592,699	-
Unamortized Bond Issue Costs	3,227,571	-
Total Restricted Assets	72,586,449	-
Capital Assets:		
Land	50,330,305	-
Water Rights	13,607,668	-
Buildings	76,128,461	2,014,156
Other Improvements	1,064,073,025	4,940,078
Machinery and Equipment	91,894,909	1,845,919
Construction in Progress	188,849,530	90,395
Excess of Cost Over Net Assets Acquired	12,522,509	-
Less Accumulated Depreciation and Amortization	(392,399,486)	(4,047,830)
Total Capital Assets, Net	1,105,006,921	4,842,718
Investment in Joint Ventures	245,468,246	-
Total Noncurrent Assets	1,423,061,616	4,842,718
Total Assets	$ 1,557,778,865	$ 48,859,046

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

CITY OF MESA, ARIZONA
EXHIBIT A-7 (Continued)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
LIABILITIES		
Current Liabilities-Payable From Current Assets:		
Accounts Payable	$ 9,475,110	$ 1,146,663
Other Accrued Expenses	-	14,537,365
Current Liabilities-Payable From Restricted Assets:		
Bond Replacement, Extensions and Reserves-Accounts Payable	141,755	-
Capital Projects-Accounts Payable	3,982,071	-
Accrued Notes Interest Payable	5,969	-
Accrued Capital Lease Interest Payable	35,754	-
Accrued Bond Interest Payable	16,840,449	-
Deferred Revenue	2,795	-
Matured Bonds Payable	340,294	-
Matured Leases Payable	434,323	-
Customer Deposits and Prepayments	13,538,476	-
Current Portion of Long-term Liabilities:		
Current Portion of Revenue Bonds Payable	9,210,000	-
Current Portion of General Obligation Bonds Payable	318	-
Current Portion of Municipal Development Bonds Payable	5,100,000	-
Current Portion of Notes Payable	157,898	-
Current Portion of Leases Payable	1,328,216	6,539
Current Portion of Compensated Absences	759,175	100,692
Total Current Liabilities	61,352,603	15,791,259
Long-Term Liabilities:		
Revenue Bonds Payable, Net of Deferred Amounts on Refundings	693,528,778	-
General Obligation Bonds Payable	3,317,842	-
Notes Payable	431,564	-
Capital Leases	1,490,067	6,727
Unamortized Bond Premium	21,968,187	-
Compensated Absences	3,875,786	865,105
Total Long-Term Liabilities	724,612,224	871,832
Total Liabilities	785,964,827	16,663,091
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	366,497,841	4,829,452
Restricted For:		
Convention Center	93,934	-
Airport	4,403,090	-
Golf Courses	26,529	-
Capital Projects	58,610,628	-
Debt Service	26,997,780	-
Bond Indentures	6,624,363	-
Water, Wastewater & Solid Waste Improvements	62	-
Unrestricted	308,559,811	27,366,503
Total Net Assets	$ 771,814,038	$ 32,195,955
Adjustment to reflect the consolidation of the internal service funds related to the enterprise fund.	(184,871)	
Total net assets of the business-type activities	$ 771,629,167	

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

CITY OF MESA, ARIZONA
EXHIBIT A-8
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
Operating Revenues:		
Electric Sales Pledged as Security for Revenue Bonds	$ 34,518,898	$ -
Gas Sales Pledged as Security for Revenue Bonds	45,250,476	-
Water Sales Pledged as Security for Revenue Bonds	92,007,207	-
Wastewater Charges Pledged as Security for Revenue Bonds	55,398,349	-
Solid Waste Charges Pledged as Security for Revenue Bonds	42,894,663	-
Airport Fees	2,953,825	-
Golf Course Fees	2,456,596	-
Convention Center Fees	4,745,578	-
District Cooling Charges	192,972	-
Charges For Services	-	19,013,520
Self-Insurance Contributions	-	53,327,689
Other	-	36,145
Total Operating Revenues	280,418,564	72,377,354
Operating Expenses:		
Electric	22,791,513	-
Gas	34,474,868	-
Water	30,374,210	-
Wastewater	21,664,505	-
Solid Waste	26,290,110	-
Airport	1,507,743	-
Golf Course	2,299,788	-
Convention Center	5,384,020	-
District Cooling	216,740	-
Warehouse, Maintenance & Services	-	19,028,369
Self-Insurance	-	47,216,226
Total Operating Expenses	145,003,497	66,244,595
Operating Income (Loss) Before Depreciation and Amortization	135,415,067	6,132,759
Depreciation and Amortization	(42,911,298)	(429,758)
Operating Income (Loss)	92,503,769	5,703,001

(Continued)

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

CITY OF MESA, ARIZONA
EXHIBIT A-8 (Continued)
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Nonoperating Revenues (Expenses):		
Investment Income Pledged as Security for Revenue Bonds	8,032,463	-
Investment Income Unpledged	92,664	1,794,860
Intergovernmental	146,614	-
Miscellaneous Pledged as Security for Revenue Bonds	428,962	-
Miscellaneous Unpledged	-	715
Interest Expense:		
Revenue Bonds	(25,275,613)	-
General Obligation Bonds	(124,723)	-
Municipal Development Corporation Bonds	(312,488)	-
Notes Payable	(38,970)	-
Capital Leases	(162,260)	(525)
Amortization of Bond Issuance and Administrative Costs	(306,346)	-
Loss on Disposal of Capital Assets	(458,471)	20
Equity Interest in Joint Ventures	(10,044,724)	-
Total Nonoperating Revenues (Expenses)	(28,022,892)	1,795,070
Income before Transfers and Capital Contributions	64,480,877	7,498,071
Capital Contributions	26,458,873	1,384,600
Transfers In	98,391	507,000
Transfers Out	(67,272,963)	-
Change in Net Assets	23,765,178	9,389,671
Total Net Assets - Beginning	748,048,860	22,806,284
Total Net Assets - Ending	$ 771,814,038	$ 32,195,955
Adjustment to reflect consolidation of internal service funds related to the enterprise fund.	(7,521)	
Change in net assets of the business-type activities	$ 23,757,657	

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

CITY OF MESA, ARIZONA
EXHIBIT A-9
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Funds
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 273,437,318	$ -
Cash Received From Users	6,010,128	71,916,941
Cash Payments to Suppliers	(100,068,165)	(59,229,161)
Cash Payments to Employees	(40,041,401)	(7,772,144)
Net Cash Provided By Operating Activities	139,337,880	4,915,636
Cash Flows From Noncapital Financing Activities:		
Deferred Revenue	(5,009)	-
Intergovernmental	146,614	-
Transfers In From Other Funds	98,391	507,000
Transfers Out to Other Funds	(67,272,963)	-
Net Cash Provided By (Used For) Noncapital Financing Activities	(67,032,967)	507,000
Cash Flows From Capital and Related Financing Activities:		
Proceeds From Bond Sales	202,009,441	-
Payment to Refunded Bond Escrow Agent	(134,487,222)	-
Acquisition and Construction of Capital Assets	(67,775,679)	(121,665)
Investment in Joint Ventures	(20,332,729)	-
Proceeds From Sale of Capital Assets	1,227,814	715
Principal Paid on Bonds, Leases and Notes Maturities	(21,627,536)	(6,352)
Interest Paid on Bonds, Leases and Notes	(26,456,833)	(525)
Bond Issuance and Administrative Expenses	(4,664)	-
Capital Contributed by Other Governments	992,847	-
Capital Contributed by Subdividers	7,437,449	-
Net Cash Used For Capital and Related Financing Activities	(59,017,112)	(127,827)
Cash Flows From Investing Activities:		
Purchase of Investment Securities	(35,074,840)	(5,000,000)
Proceeds from Sale and Maturities of Investment Securities	30,537,797	10,000,000
Interest Received on Investments	7,544,637	1,703,018
Net Cash Provided By Investing Activities	3,007,594	6,703,018
Net Increase in Cash and Cash Equivalents	16,295,395	11,997,827
Cash and Cash Equivalents at Beginning of Year	114,179,029	21,319,862
Cash and Cash Equivalents at End of Year	$ 130,474,424	$ 33,317,689

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

CITY OF MESA, ARIZONA

EXHIBIT A-9 (Continued)

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities	Governmental Activities -
	Enterprise Fund	**Internal Service Funds**
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	$ 92,503,769	$ 5,703,001
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	42,911,298	429,758
Changes in Assets and Liabilities:		
Increase in Receivables	(971,118)	(460,413)
Increase in Inventory	-	(383,472)
Decrease in Prepaid Costs	27,871	4,905
Increase in Accounts Payable	4,866,060	1,136,164
Decrease in Other Accrued Expense	-	(1,092,607)
Decrease in Due to Other Funds	-	(421,700)
Total Adjustments	46,834,111	(787,365)
Net Cash Provided By Operating Activities	$ 139,337,880	$ 4,915,636
Noncash Transactions Affecting Financial Position:		
Contributions of Capital Assets	$ 12,293,945	$ -
Transfers of Capital Assets from Governmental Funds	5,734,632	1,118,582
Transfers of Assets from Enterprise Fund	-	266,019
Gain on Disposal of Capital Assets	1,227,814	20
Amortization of Bond Premium	1,860,864	-
Amortization of Debt Issuance Costs	306,646	-
Amortization of Deferred Amounts on Refundings	1,750,839	-
Accretion of Certificates of Supplementary Interest Payments	12,066	-
Increase of Fair Market Value of Investments	126,550	84,497

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

CITY OF MESA, ARIZONA
EXHIBIT A-10
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007

	Payroll Agency
ASSETS	
Cash and Cash Equivalents	$ 7,654,593
Total Assets	$ 7,654,593
LIABILITIES	
Accrued Payroll Payable	$ 7,654,593
Total Liabilities	$ 7,654,593

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

The City of Mesa, Arizona, (the "City") was incorporated July 5, 1883 with an approximate population of 300 and an area of one square mile. Today, the City's estimated population is 460,155 within an area of approximately 133 square miles. The City's charter was adopted August 18, 1967 providing for a Council-Manager form of government. The City provides a full range of municipal services including police and fire protection, parks and recreation, library, transportation, health and certain social services and general administration. In addition, the City owns and operates an enterprise whose activities include operations of electricity, gas, water, wastewater, solid waste, airport, golf courses, convention center and district cooling.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. **Reporting Entity**

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

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

b. **Jointly Governed Organizations**

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

(Continued)

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

Arizona Municipal Water Users Association ("AMWUA") is a nonprofit corporation established and funded by cities in Maricopa County for the development of an urban water policy and to represent the cities' interests before the Arizona legislature. The City's annual membership fee for this fiscal year was approximately $208,000. 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 14).

c. **Basic Financial Statements**

Government-wide Financial Statements: The government-wide financial statements (the statement of net assets and the statement of activities) report on the City as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. Certain charges between the Enterprise Fund's utility systems and the various functional activities are not eliminated, as this would distort the direct costs and program revenues reported for the various functions concerned.

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on the page following each governmental fund financial statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliations are also provided in Note 2.

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

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

(Continued)

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

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition, such as investment income and interest expense are reported as non-operating revenues and expenses.

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

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

e. **Fund Accounting**

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

The City reports the following major governmental funds:

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

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

(Continued)

The City reports the following non-major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

f. **Cash and Cash Equivalents and Investments**

At year-end, City cash totaled a deficit of $110,858 which includes $224,885 of petty cash. The carrying amount of the City's deposits was a deficit of $335,743 and the bank balance was $352,388. The entire bank balance was covered by federal depository insurance or by collateral held in the pledging banks trust department in the City's name. The difference of $688,131 represents deposits in transits, outstanding checks and other reconciling items.

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

(Continued)

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

Credit Risk. The City Charter authorizes the investment of City funds in accordance with Arizona Revised Statute §35-313. These investments include obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool, including the Plan 6 Pool, is overseen according to Arizona State Statute by the State Board of Deposit. The fair value of each share as of June 30, 2007, is equal to $1.00. The State Treasurer's Investment Pool does not receive a credit quality rating.

The City's investment in the bonds of U.S. Government agencies are rated AAA by Standard & Poor's and Aaa by Moody's. The Money Market Mutual Funds are all invested in U.S. Treasury securities.

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The City's investments that are reflected in the financial statements as cash equivalents total $302,141,533.

The City's investments and cash equivalents at June 30, 2007 are as follows:

		Investment Maturities (In Years)		
Investment Type	**Fair Value**	**Less Than 1**	**1-2**	**14-15**
U.S. Agencies	$ 67,929,490	$ 52,931,040 *	$ 14,998,450 **	$
City of Mesa Special Improvement District Bonds	4,670,399			4,670,399 ***
State Treasurer Plan 6 Pool	728,698	728,698		
Total Investments	$ 73,328,587	$ 53,659,738	$ 14,998,450	$ 4,670,399

*$24,989,050 of these bonds are callable from July 16, 2007 to November 29, 2007.
**All of these bonds are callable July 12, 2007 to December 18, 2007.
***These bonds are callable from July 1, 2007 to July 1, 2020.

(Continued)

	Fair Value
Investments:	
U.S. Government Agencies	$ 67,929,490
City of Mesa Special Improvement District Bonds	4,670,399
Investments in State Treasurer's Plan 6 Pool	728,698
Total Investments as Reported in the Financial Statements	73,328,587
Cash Equivalents:	
Money Market Mutual Funds	2,362,241
Investments in State Treasurer's Local Government Investment Pool	299,779,292
Total Cash Equivalents	302,141,533
Total Investments and Cash Equivalents	$ 375,470,120

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

The City had a net increase in the fair value of investments during fiscal year 2006-07 of $346,290. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

(Continued)

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

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

Fund	Receivables	Allowance	Net
Governmental Activities:			
General Fund:			
Taxes	$ 14,022,787	$ (529,000)	$ 13,493,787
Courts	39,508,347	(36,668,907)	2,839,440
Other Customers	8,113,558	(737,600)	7,375,958
Restricted	3,684,929		3,684,929
Due from Other Governments			
State Shared Revenues	10,665,051		10,665,051
Other	9,185,053		9,185,053
Highway User Revenue Fund:			
Due from Other Governments			
State Shared Revenues	3,566,987		3,566,987
Other	441,708		441,708
Non-Major Governmental Funds:			
Customers	109,047		109,047
Restricted-Spec. Assessments	8,654,735		8,654,735
Due from Other Governments	2,086,355		2,086,355
Internal Service Funds:			
Customers	533,835		533,835
Due from Other Governments	33,959		33,959
Total Governmental Activities	$ 100,606,351	$ (37,935,507)	$ 62,670,844
Business-Type Activities:			
Utility Customers	$ 27,805,791	$ (1,675,000)	$ 26,130,791
Other Customers	1,260,342	(125,700)	1,134,642
Due from Other Governments	642,346		642,346
Total Business-type Activities	$ 29,708,479	$ (1,800,700)	$ 27,907,779

(Continued)

h. **Deferred Revenue**

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

Rehabilitation Revolving Loans not yet due (General Fund)	97,217
Surcharges included in Court Receivables (General Fund)	3,587,713
Grants received prior to meeting all eligibility requirements (General Fund)	94,474
Lease Revenue not yet due (Special Revenue Fund)	185,658
Special assessments not yet due (Debt Service Fund)	8,654,735
Total deferred revenue for governmental funds	$12,619,797

The deferred revenue of $2,795 reported in the Enterprise Fund represents grants received prior to meeting all eligibility requirements.

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

The following interfund activities are included in the fund financial statements at June 30, 2007:

Fund	Interfund Receivables	Interfund Payables
Governmental funds:		
General Fund	$ 248,200	$
Non-major Governmental funds		248,200
Total Governmental funds	$ 248,200	$ 248,200

The interfund balances at June 30, 2007 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2007 are expected to be repaid within one year.

The net transfers of $61,439,940 from business-type activities to governmental activities on the government-wide statement of activities are primarily operational subsidies from the Enterprise Fund to the General Fund and capital assets with a book value of $5,734,632 that were transferred between governmental and business-type activities (see Note 9). The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2007:

(Continued)

Fund	**Transfers Out**	**Transfers In**
Governmental funds:		
General Fund	$ 20,486,012	$ 68,252,134
Highway User Revenue Fund	6,566,787	
Non-major Governmental Funds	6,180,434	31,648,671
Total governmental funds	33,233,233	99,900,805
Proprietary funds:		
Enterprise Fund	67,272,963	98,391
Internal Service Funds		507,000
Total	$ 100,506,196	$ 100,506,196

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

j. **Inventory**

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

k. **Unbilled Accounts Receivable**

Unbilled utility service receivables are recorded in the year in which the services are provided. At June 30, 2007, unbilled utility service receivables are recorded in the Enterprise Fund as follows:

Electric	$ 2,450,529
Gas	1,277,929
Water	5,266,645
Wastewater	2,456,860
Solid Waste	1,765,294
	$ 13,217,257

l. **Capital Assets**

Capital assets, including infrastructure (streets, sidewalks, street lighting, storm drainage and other assets that are immovable and of value only to the City) are defined as assets with an initial cost of $5,000 or more and an estimated useful life of more than one year. All capital assets, whether owned by governmental activities or business-type activities are required to be recorded and depreciated in the government-wide financial statements.

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

Prior to June 30, 1978, the City did not maintain detailed property cost records of its capital assets other than for rolling stock. A physical inventory was performed during the fiscal year ended June 30, 1978 and detailed property records were prepared. Generally, the assets were recorded at cost. Where historical cost information was not available, the assets were valued at estimated cost using engineering estimates, appraisals or current replacement cost, adjusted to the year of acquisition.

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

The estimated useful lives are as follows:

Buildings	15-50 Years
Other Improvements	10-50 Years
Machinery and Equipment	3-30 Years
Infrastructure	10-99 Years
Excess Cost over Net Assets Acquired	30 Years

(Continued)

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2007 follows:

	Balance July 1, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Governmental Activities:					
Non-depreciable Assets:					
Land	$ 220,560,227	$ 23,149,362	$ (301,078)	$ 57,003	$ 243,465,514
Construction-in-Progress	85,409,259	65,154,199	(58,943,317)	-	91,620,141
Total Non-depreciable Assets	305,969,486	88,303,561	(59,244,395)	57,003	335,085,655
Depreciable Assets:					
Buildings	299,188,993	215,688	-	-	299,404,681
Other Improvements	107,544,429	9,030,908	(2,440,422)	341,204	114,476,119
Machinery and Equipment	152,713,541	18,459,403	(3,793,365)	(6,308,438)	161,071,141
Infrastructure	661,758,407	45,666,879	(10,502,665)	175,599	697,098,220
Total Depreciable Assets	1,221,205,370	73,372,878	(16,736,452)	(5,791,635)	1,272,050,161
Less Accumulated Depreciation for:					
Buildings	(50,910,494)	(6,394,697)	-	-	(57,305,191)
Other Improvements	(36,261,048)	(4,482,379)	25,239	-	(40,718,188)
Machinery and Equipment	(87,307,757)	(17,245,795)	3,257,324	-	(101,296,228)
Infrastructure	(202,601,095)	(24,159,803)	9,633,470	-	(217,127,428)
Total Accum. Depreciation	(377,080,394)	(52,282,674)	12,916,033	-	(416,447,035)
Total Depreciable Assets, net	844,124,976	21,090,204	(3,820,419)	(5,791,635)	855,603,126
Governmental Activities Capital Assets, net	$ 1,150,094,462	$ 109,393,765	$ (63,064,814)	$ (5,734,632)	$ 1,190,688,781

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

General Government	$ 5,994,991
Public Safety	14,742,323
Cultural – Recreational	6,533,993
Community Environment	24,581,609
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	429,758
Total Depreciation	$ 52,282,674

(Continued)

	Balance July 1, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Business-type Activities:					
Non-depreciable Assets:					
Land	$ 50,285,301	$ 391,908	$ (289,901)	$ (57,003)	$ 50,330,305
Water Rights	12,611,498	996,170	-	-	13,607,668
Construction-in-Progress	155,044,269	84,789,580	(50,984,319)	-	188,849,530
Total Non-depreciable Assets	217,941,068	86,177,658	(51,274,220)	(57,003)	252,787,503
Depreciable Assets:					
Buildings	76,032,272	96,189	-	-	76,128,461
Other Improvements	1,038,528,000	32,865,753	(3,223,002)	(4,097,726)	1,064,073,025
Machinery and Equipment	70,707,932	12,764,889	(1,467,273)	9,889,361	91,894,909
Excess of Cost over Net Assets Acquired	12,522,509	-	-	-	12,522,509
Total Depreciable Assets	1,197,790,713	45,726,831	(4,690,275)	5,791,635	1,244,618,904
Less Accum. Depr. & Amort. for:					
Buildings	(20,395,755)	(2,796,629)	266,223	1	(22,926,160)
Other Improvements	(283,877,998)	(23,220,618)	1,804,882	(75)	(305,293,809)
Machinery and Equipment	(40,305,912)	(16,476,634)	696,298	74	(56,086,174)
Excess of Cost over Net Assets Acquired	(7,675,926)	(417,417)	-	-	(8,093,343)
Total Accum. Depr. & Amort.	(352,255,591)	(42,911,298)	2,767,403	-	(392,399,486)
Total Depreciable Assets, net	845,535,122	2,815,533	(1,922,872)	5,791,635	852,219,418
Business-type Activities Capital Assets, net	$ 1,063,476,190	$ 88,993,191	$ (53,197,092)	$ 5,734,632	$ 1,105,006,921

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

Electric	$ 3,345,934
Gas	2,318,816
Water	16,165,086
Wastewater	16,910,429
Solid Waste	1,606,200
Airport	1,173,170
Golf Course	241,595
Convention Center	275,876
District Cooling	874,192
Total Depreciation	$ 42,911,298

(Continued)

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

Governmental Activities	Construction in Progress	Commitments
General Government	$ 11,442,431	$ 288,615
Public Safety	12,403,806	6,735,470
Cultural-Recreational	7,770,480	1,344,465
Community Environmental	59,913,026	4,227,646
Warehouse, Maintenance and Services	90,398	153,590
Total	$ 91,620,141	$ 12,749,786
Business-type Activities		
Electric	$ 3,855,289	$ 96,996
Gas	11,889,195	358,584
Water	88,074,849	1,923,238
Sewer	83,185,320	20,740,568
Solid Waste	264,714	3,447,058
Airport	29,716	1
Golf Course	1,177,721	985,088
Convention Center	2,861	24
District Cooling	369,865	141
Total	$ 188,849,530	$ 27,551,698

m. **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, 2007 was $12,522,509 and $8,093,343, respectively.

(Continued)

n. **Capitalization of Interest**

For the year ended June 30, 2007, the City capitalized net interest costs of $3,652,090 (interest expense of $3,911,130 reduced by interest income of $259,040 in the Business-type Activities Enterprise Fund). Total interest expense and income in the Business-type Activities Enterprise Fund before capitalization was $29,825,184 and $8,384,167 respectively.

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

The Property and Public Liability, Workers' Compensation and Employee Benefits Internal Service Funds have been established to account for the costs of claims incurred by the City under self-insurance programs. The City is fully self-insured for all public liability risks, up to a maximum of $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 $850,000 liability per occurrence. The current policy went into effect July 1, 2006; prior to that, the coverage level was $600,000. In the Employee Benefit Fund, the City has excess insurance coverage when an individual's claims exceeds $150,000 per contract year; however, no claims will be reimbursed until all claims in excess of the specific attachment point ($150,000) exceed the aggregate specific ($175,000). There were no changes in insurance coverage during this fiscal year for the Employee Benefit fund or the Property and Public Liability Self-Insurance 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 Benefits 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 July 2007.

The Stop Loss Receivable balance for the Workers' Compensation Fund at June 30, 2007 is $132,162 of which $67,632 was established during the current fiscal year. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $203,164 with $98,809 received this current fiscal year. The Property and Public Liability Fund does not have a Stop Loss Receivable at June 30, 2007, and the Fund has not received any settlements in excess of insurance coverage over the past three fiscal years. The Employee Benefits Fund does not have a Stop Loss Receivable at June 30, 2007. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $1,226,761 with $594,913 received this current fiscal year.

(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, 7/1/05	$ 6,800,000	$ 5,929,311	$ 3,767,460	$ 16,496,771
Adjustments to Reserves-FY 05-06	1,645,733	1,725,495	34,840,620	38,211,848
Claim Payments-FY 05-06	(1,345,733)	(2,726,995)	(35,005,919)	(39,078,647)
Unpaid Claims, 6/30/06	$ 7,100,000	$ 4,927,811	$ 3,602,161	$ 15,629,972
Adjustments to Reserves-FY 06-07	$ 855,014	$ 3,263,645	$ 36,140,968	$ 40,259,627
Claim Payments-FY 06-07	(1,555,014)	(2,677,173)	(37,120,047)	(41,352,234)
Unpaid Claims, 6/30/07	$ 6,400,000	$ 5,514,283	$ 2,623,082	$ 14,537,365

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

p. **Compensated Absences**

The current portion of governmental funds accrued vacation and sick leave benefits payable are included as a liability in the fund financial statements. The entire amount of accumulated unpaid vested vacation pay and an estimated amount for sick leave related to the proprietary funds is included as a liability in the financial statements. The remaining long-term balances related to governmental activities are included in the government-wide financial statement (see Note 5 for additional disclosure of long-term balances).

q. **Statement of Cash Flows**

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

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

(Continued)

r. **Budgets and Budgetary Accounting**

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

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

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

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

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

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

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

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments. This limitation restricts the growth of expenditures to a percentage determined by population and inflation, with certain expenditures excluded from the limitation. The State Economic Estimates Commission determines and publishes, prior to April 1st of each year, the expenditure limitation for the following fiscal year for each governmental unit. Fiscal year 1979-80 is the base year for calculations.

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

(Continued)

Budgeted amounts are as originally adopted by the City Council on June 26, 2006.

s. **Contingency Services**

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

Any balance of a contingency appropriation not used during one fiscal year is available to help finance the following year's budget. The contingency applications are reflected in the budget basis financial statements for the fiscal year ended June 30, 2007 and are made in accordance with State Statutes.

2. RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE STATEMENTS

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

(Continued)

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

	Total Governmental Funds	Long-term Assets/ Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Total
Assets					
Cash and Cash Equivalents	$ 119,078,875	$	$ 33,317,689		$ 152,396,564
Investments	42,629,489		4,996,900		47,626,389
Accounts Receivable, net	23,818,232		533,835		24,352,067
Interest Receivable	1,217,995		211,632		1,429,627
Due From Other Governments	25,945,154		33,959		25,979,113
Due From Other Funds	248,200		184,871	(248,200)	184,871
Inventories			4,397,945		4,397,945
Prepaid Costs	306,877		524,368		831,245
Deposits	1,222,136				1,222,136
Restricted Cash and Cash Equivalents	11,505,094				11,505,094
Restricted Accounts Receivable - Deferred	12,339,664				12,339,664
Unamortized Bond Issuance Costs		1,527,680			1,527,680
Investment in Joint Ventures		32,732,215			32,732,215
Capital Assets		1,185,846,063	4,842,718		1,190,688,781
Total Assets	$ 238,311,716	$ 1,220,105,958	$ 49,043,917	$ (248,200)	$ 1,507,213,391
Liabilities					
Warrants Outstanding	$ 5,791,366	$	$	$	$ 5,791,366
Accounts Payable	16,822,339		1,146,663		17,969,002
Other Accrued Expenses			14,537,365		14,537,365
Due To Other Funds	248,200			(248,200)	-
Customer and Defendant Deposits	8,090,562				8,090,562
Compensated Absences	1,039,333				1,039,333
Restricted Accounts Payable	3,107				3,107
Restricted Lease Interest Payable	121,421				121,421
Restricted Bond Interest Payable	8,850,975				8,850,975
Restricted Deferred Revenue	12,619,797	(8,751,952)			3,867,845
Matured G.O. Bonds Payable	659,706				659,706
Matured HURF Bonds Payable	165,000				165,000
Matured Capital Leases Payable	1,613,233				1,613,233
Long-term Liabilities		428,278,531	979,063		429,257,594
Total Liabilities	$ 56,025,039	$ 419,526,579	$ 16,663,091	$ (248,200)	$ 491,966,509
Fund Balance/Net Assets					
Total Fund Balance/Net Assets	$ 182,286,677	$ 800,579,379	$ 32,380,826	$ -	$ 1,015,246,882
Total Liabilities and Fund Balance/Net Assets	$ 238,311,716	$ 1,220,105,958	$ 49,043,917	$ (248,200)	$ 1,507,213,391

(1) When capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures

(Continued)

in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	$1,598,245,268
Accumulated depreciation	(412,399,205)
	$1,185,846,063

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

Investment in joint ventures	$ 32,732,215

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

Unamortized bond issuance costs	$ 1,527,680

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

Bonds payable	$ 376,675,613
Capital leases	22,927,546
Compensated absences	18,357,530
Unamortized bond premium	10,317,842
	$ 428,278,531

Deferred revenue is affected by two changes. Deferred revenue for the long-term special assessment receivables and for the rehabilitation loan program shown on the governmental fund statements is not deferred on the statement of net assets.

Deferred special assessment revenue	$ 8,654,735
Deferred rehabilitation loan revenue	97,217
	$ 8,751,952

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

Total	$ 32,380,826

(Continued)

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

	Total Governmental Funds	Long-term Revenues/ Expenses(1)	Capital - Related Items(2)	Internal Service Funds(3)	Long-term Debt Transactions(4)	Eliminations and Adjustments(5)	Statement of Activities
Revenues and Other Sources							
Taxes	$ 155,817,051	$	$	$	$	$	$ 155,817,051
Occupancy Taxes	2,389,528						2,389,528
Special Assessments	416,906	3,619,738					4,036,644
Licenses and Permits	20,127,674						20,127,674
Intergovernmental	190,825,624	(35,929)					190,789,695
Charges for Services	22,039,055						22,039,055
Contributions				14,037,707			14,037,707
Fines and Forfeitures	10,276,600						10,276,600
Investment Income	6,463,111			1,794,860			8,257,971
Miscellaneous	6,365,625	573,254		36,860	78,101		7,053,840
Other Sources:							
Capital Contributions			37,578,923				37,578,923
Transfers In	99,900,805		(1,118,581)	1,384,600		(31,648,671)	68,518,153
Face Amount of Bond Sales	30,681,840				(30,681,840)		-
Premiums on Issuance of Bonds	573,254	(573,254)					-
Proceeds From Capital Leases	6,911,382				(6,911,382)		-
Total Revenues and Other Sources	$ 552,788,455	$ 3,583,809	$ 36,460,342	$ 17,254,027	$ (37,515,121)	$ (31,648,671)	$ 540,922,841
Expenditures/Expenses							
Current:							
General Government	$ 40,661,807	$ 92,129	$ 6,310,209	$ 1,120,169	$ 16,453	$	$ 48,200,767
Public Safety	210,541,969	480,390	15,145,341	5,876,527	55,741		232,099,968
Cultural-Recreational	54,711,334	124,991	8,882,496	820,952	51,810		64,591,583
Community Environment	65,314,260	45,374	25,655,184	546,187	103,091		91,664,096
Debt Service:							
Principal Payments	8,357,577				(8,357,577)		-
Interest on Bonds	17,236,984				(40,505)		17,196,479
Interest on Capital Leases	913,726				(72,857)		840,869
Service Charges	56,768	(56,768)					-
Capital Outlay	77,474,595		(77,474,595)				-
Total Expenditures\Expenses	$ 475,269,020	$ 686,116	$ (21,481,365)	$ 8,363,835	$ (8,243,844)	$ -	$ 454,593,762
Other Financing Uses/ Changes in Net Assets							
Transfers Out	33,233,233		6,000,651	(507,000)		(31,648,671)	7,078,213
Total Expenditures\Expenses & Other Financing Uses	508,502,253	686,116	(15,480,714)	7,856,835	(8,243,844)	(31,648,671)	461,671,975
Net Change for the Year	$ 44,286,202	$ 2,897,693	$ 51,941,056	$ 9,397,192	$ (29,271,277)	$ -	$ 79,250,866

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

Special assessment revenue	$ 3,619,738
Rehabilitation loan revenue	(35,929)
Total	$ 3,583,809

(Continued)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	$ (686,116)
Total	$ (686,116)

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

Capital outlay for capital assets	$ 65,032,537
Capital outlay for joint venture	12,442,058
Depreciation expense	(51,852,916)
Depreciation expense for joint venture	(18,797)
Total	$ 25,602,882

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

Donation of capital assets	$ 37,578,923
Loss on disposal of capital assets	(4,121,517)
Transfer of capital assets	(6,000,651)
Transfer of capital assets reclassified to transfer in	(1,118,581)
Total	$ 26,338,174

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

Revenue and other sources	$ 15,869,427
Expenditures and other uses	(8,363,835)
Transfers in from General Fund	507,000
Transfer of capital assets from governmental activities	1,118,581
Transfer of capital assets from business-type activities	266,019
Change in net assets	$ 9,397,192

(Continued)

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

New debt issued (including refunded debt)	
Revenue bond proceeds	$(10,675,000)
General Obligation bond proceeds	(15,915,000)
Special Assessment bond proceeds	(4,091,840)
Capital lease proceeds	(6,911,382)
Principal repayments	8,357,577
Total	$(29,235,645)

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

Amortization of bond issue costs	$ (227,095)
Amortization of deferred amounts	(215,410)
Accretion of certificates	328,772
Amortization of bond premiums	78,101
Total	$ (35,632)

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

Transfers out	$ 31,648,671
Transfers in	(31,648,671)
Total	$ -

(Continued)

3. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, the City provides post-retirement health care benefits to all retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2007, approximately 1,130 former employees were eligible for these benefits.

The City's cost for retiree health insurance for the fiscal year ended June 30, 2007 was $5,608,225. This cost represents actual claims paid for retirees under the self-insurance program and premiums paid to the vision care provider; net of contributions received from retirees and retirement systems.

4. RETIREMENT AND PENSION PLANS

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

Arizona State Retirement System:

a. **<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 9.10 percent of their salary to the System during fiscal year 2006-07 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, 2007, 2006 and 2005 were $12,608,847, $10,041,506 and $8,046,641, respectively, which were equal to the required contributions for each year. The City's employees contributed equal amounts to the System for the same time period.

Elected Officials Retirement Plan:

a. **Plan Description**

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

b. **Funding Policy**

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7 percent of their annual covered salary. The employer rate for 2006-07 was 18.55 percent. The City's contributions to EORP for the fiscal years ending June 30, 2007, 2006 and 2005 were $27,309, $29,636 and $17,817, respectively, which were equal to the required contributions for each year. The City's employees contributed $10,305, $10,099 and $9,243 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 2006-07 was 13.04 percent for fire personnel and 12.60 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 $4,318,280 and fire personnel $2,054,244 during fiscal year 2006-07. For 2007, the City's annual pension cost of $7,112,462 for police and $3,397,231 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.5 percent investment rate of return, (b) projected salary increases of 5.0 percent attributable to inflation, (c) additional projected salary increases ranging from 1.0 percent to 4.0 percent per year, attributable to seniority/merit. The actuarial value of PSPRS assets was determined using the smooth market value method. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over an open period of 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
2004	$ 4,469,549	100 %	$ -
2005	4,995,079	100	-
2006	5,802,278	100	-

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 1,716,783	100 %	$ -
2005	2,438,281	100	-
2006	1,645,421	100	-

e. **Required Supplementary Information**

Schedule of Funding Progress (Latest Information Available):

POLICE

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
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	-
2001	187,280,489	151,987,452	123.2	(35,293,037)	44,675,271	-
2002	191,200,945	170,390,053	112.2	(20,810,892)	48,128,704	-
2003	199,339,444	190,290,565	104.8	(9,048,879)	48,854,068	-
2004	204,165,027	207,950,516	98.2	3,785,489	48,742,220	7.8
2005	213,696,650	244,078,768	87.6	30,382,118	51,400,085	59.1
2006	221,090,247	270,935,375	81.6	49,845,128	50,936,366	97.9

(Continued)

FIRE

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
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	-
2001	127,968,471	96,981,661	132.0	(30,986,810)	23,072,687	-
2002	130,154,053	110,765,627	117.5	(19,388,426)	22,823,965	-
2003	135,273,964	127,311,489	106.3	(7,962,475)	22,625,122	-
2004	137,550,141	135,831,878	101.3	(1,718,263)	22,386,133	-
2005	143,372,232	159,801,979	89.7	16,429,747	24,552,560	66.9
2006	146,502,960	177,620,036	82.5	31,117,076	24,893,935	125.0

(Continued)

5. LONG-TERM OBLIGATIONS

a. Changes in Long-Term Obligations

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

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 207,859,834	$ 15,915,000	$ (659,706)	$ 223,115,128	$ 16,939,682
Municipal Development Corp. Bonds	9,970,000	-	-	9,970,000	-
Highway User Revenue Bonds	131,950,000	10,675,000	(165,000)	142,460,000	170,000
Special Assessment Bonds with Governmental Commitment	5,049,000	4,091,840	(343,000)	8,797,840	751,840
Add Certificates of Supplemental Interest	2,140,721	76,361	(405,132)	1,811,950	-
Less Deferred Amounts on Refundings	(10,886,293)	-	1,406,988	(9,479,305)	-
Total Bonds Payable	346,083,262	30,758,201	(165,850)	376,675,613	17,861,522
Capital Leases	23,273,476	6,911,382	(7,196,226)	22,988,632	8,015,639
Less Deferred Amounts on Refundings	(96,520)	-	48,700	(47,820)	-
Unamortized Bond Premiums	11,636,222	-	(1,318,380)	10,317,842	-
Compensated Absences	17,671,414	15,331,853	(13,679,940)	19,323,327	4,400,604
Governmental Activities Total	$ 398,567,854	$ 53,001,436	$ (22,311,696)	$ 429,257,594	$ 30,277,765
Business-type Activities:					
Bonds Payable:					
General Obligation Bonds	$ 3,290,166	$	$ (294)	$ 3,289,872	$ 318
Municipal Development Corp. Bonds	9,600,000	-	(4,500,000)	5,100,000	5,100,000
Utility System Revenue Bonds	655,085,000	192,810,000	(124,710,000)	723,185,000	9,210,000
Add Certificates of Supplemental Interest	78,546	2,802	(14,868)	66,480	-
Less Deferred Amounts on Refundings	(13,447,425)	(8,735,666)	1,698,677	(20,484,414)	-
Total Bonds Payable	654,606,287	184,077,136	(127,526,485)	711,156,938	14,310,318
Notes Payable	759,993	-	(170,531)	589,462	157,898
Capital Leases	4,301,174	-	(1,431,677)	2,869,497	1,328,216
Less Deferred Amounts on Refundings	(103,380)	-	52,166	(51,214)	-
Unamortized Bond Premiums	15,296,861	8,532,190	(1,860,864)	21,968,187	-
Compensated Absences	-	5,377,810	(742,849)	4,634,961	759,175
Business-type Activities Total	$ 674,860,935	$ 197,987,136	$ (131,680,240)	$ 741,167,831	$ 16,555,607

(Continued)

b. **Bonds Payable**

At June 30, 2007, long-term bonds payable consisted of:

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

General Obligation Bonds

$30,000,000 1998 general obligation serial bonds, (partially refunded by general obligation refunding bonds, series 2004), due on July 1, 2009, plus semi-annual interest of 6.75 percent through July 1, 2009.	$2,000,000
$18,100,000 1998 general obligation refunding serial bonds, due in annual principal installments ranging from $175,000 to $16,875,000, plus semi-annual interest ranging from 4.10 percent to 4.50 percent through July 1, 2008.	16,875,000
$11,459,000 1999 general obligation serial bonds (partially refunded by utility systems revenue refunding bonds, series 2002 and by general obligation refunding bonds, series 2002, 2002A, 2004 & 2006), due on July 1, 2009, plus semi-annual interest of 6.50 percent through July 1, 2009.	791,590
$36,500,000 2000 general obligation serial bonds (partially refunded by general obligation refunding bonds, series 2002A, 2004 & 2006), due in annual principal installments ranging from $2,500,000 to $2,750,000, plus semi-annual interest of 6.50 percent through July 1, 2011.	5,250,000
$25,375,000 2002 general obligation serial bonds (partially refunded by general obligation refunding bonds, series 2002A, 2004 & 2006), due in annual principal installments ranging from $1,750,600 to $1,825,000, plus semi-annual interest ranging from 5.25 percent to 6.00 percent through July 1, 2011.	3,414,600
$24,720,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from $59,706 to $9,498,229, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	23,863,229
$41,680,611 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $1,461,369 to $10,277,813, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016. Total bonds outstanding at June 30, 2007, include $1,811,950 of certificates of ownership of supplemental interest payments and $165,480 of capital appreciation maturing through 2010.	39,456,606
$22,565,000 2003 general obligation serial bonds, due in annual installments ranging from $1,250,000 to $2,315,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	22,565,000
$46,230,300 2004 general obligation refunding serial bonds, due in annual installments ranging from $34,839 to $31,852,800, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2018.	43,602,523
$11,705,000 2005 general obligation serial bonds, due in annual installments ranging from $500,000 to $3,250,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	11,705,000

(Continued)

$9,710,000 2006 general obligation serial bonds, due in annual installments ranging from $135,000 to $4,225,000, plus semi-annual interest ranging from 4.40 percent to 5.0 percent through July 1, 2025.	9,710,000
$25,482,000 2006 general obligation refunding serial bonds, due in annual installments ranging from $143,425 to $11,306,746, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	23,809,412
$15,915,000 2007 general obligation serial bonds due in annual installments ranging from $615,000 to $$5,500,000 plus semi-annual interest ranging from 4.125 percent to 6.0 percent through July 1, 2027.	15,915,000
Total General Obligation Bonds	**$218,957,960**
Deferred amounts on refundings	5,969,118
Certificates of Supplemental Interest	(1,811,950)
Total General Obligation Bonds not including deferred amounts on refundings and certificates of supplemental interest	$223,115,128

Municipal Development Corp. Bonds

$9,970,000 1996 City of Mesa Municipal Development Corp. special tax updates bonds, series 1996A, due in annual principal installments ranging from $800,000 to $1,800,000, beginning in fiscal year 2008-09, plus semi-annual interest at variable rates as is necessary to remarket the bonds, through October 15, 2016.	$ 9,970,000
Total Municipal Development Corp. Bonds	**$ 9,970,000**

Street and Highway User Revenue Bonds

$19,000,000 1997 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A & 2004), due on July 1, 2009, plus semi-annual interest of 6.75 percent through July 1, 2009.	$ 1,650,000
$7,900,000 1999 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A, 2004 & 2005), due in annual principal installments ranging from $225,000 to $750,000, plus semi-annual interest of 6.50 percent through July 1, 2010.	975,000
$20,000,000 2000 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A, 2004 & 2005), due in annual principal installments of $1,500,000, plus semi-annual interest of 6.50 percent through July 1, 2011.	3,000,000
$25,800,000 2002 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A, 2004 & 2005), due in annual principal installments ranging from $800,000 to $1,000,000, plus semi-annual interest ranging from 5.75 percent to 6.25 percent through July 1, 2012.	2,800,000
$31,985,000 2002 street and highway user revenue refunding bonds, due in annual installments ranging from $40,000 to $6,270,000, plus semi-annual interest ranging from 2.0 percent to 5.0 percent through July 1, 2017.	30,273,088

(Continued)

$26,805,000 2003 street and highway user revenue bonds, due in annual principal installments ranging from $500,000 to $9,750,000, plus semi-annual interest ranging from 4.25 percent to 5.50 percent through July 1, 2022.	26,805,000
$9,585,000 2004 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2005), due in annual principal installments ranging from $100,000 to $225,000, plus semi-annual interest ranging from 4.00 percent to 5.00 percent through July 1, 2022.	1,585,000
$17,760,000 2004 street and highway user revenue refunding bonds, due in annual installments ranging from $20,000 to $7,250,000, plus semi-annual interest ranging from 3.5 percent to 5.0 percent through July 1, 2018.	16,807,144
$23,800,000 2005 street and highway user revenue refunding bonds, due in annual principal installments ranging from $25,000 to $8,000,000, plus semi-annual interest ranging from 2.75 percent to 5.0 percent through July 1, 2023.	22,479,581
$10,225,000 2005 street and highway user revenue bonds, due in annual principal installments ranging from $50,000 to $8,500,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	10,225,000
$11,675,000 2006 street and highway user revenue bonds, due in annual installments ranging from $850,000 to $9,850,000, plus semi-annual interest ranging from 4.50 percent to 5.25 percent through July 1, 2025.	11,675,000
$10,675,000 2007 street and highway user revenue bonds, due in annual principal installments ranging form $1,000,000 to $3,900,000, plus semi annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2027.	$10,675,000
Total Street and Highway User Revenue Bonds	**$138,949,813**
Deferred amounts on refundings	3,510,187
Total Street and Highway User Revenue Bonds not including deferred amounts on refundings	$142,460,000
Special Assessment Bonds (payable from special assessments levied on the benefited properties)	
$77,976 1999 special assessment district bonds, due in annual principal installments of $8,000, plus semi-annual interest of 6.00 percent, through January 1, 2009.	$ 16,000
$5,025,000 2005 special assessment district bonds, due in annual principal installments of $335,000, plus semi-annual interest of 5.80 percent, through January 1, 2021.	4,690,000
$4,091,840 2007 special assessment district bonds, due in annual principal installments ranging from $408,840 to $410,000, plus semi-annual interest of 5.0 percent, through January 1, 2017.	$4,091,840
Total Special Assessment Bonds	**$ 8,797,840**
Total bonds payable recorded in governmental activities	**$376,675,613**

(Continued)

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

General Obligation Bonds

$27,041,000 1999 general obligation serial bonds (partially refunded by 2002 utility systems revenue refunding bonds and 2002A, 2004 & 2006 general obligation refunding bonds), due on July 1, 2009, plus semi-annual interest of 6.50 percent through July 1, 2009.	$ 208,410
$1,200,000 2002 general obligation serial bonds (partially refunded by 2002A, 2004 & 2006 general obligation refunding bonds), due in annual principal installments ranging from $79,100 to $82,490, plus semi-annual interest ranging from 5.25 percent to 6.00 percent through July 1, 2011.	160,400
$120,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from $294 to $46,771, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	118,873
$1,529,379 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $53,631 to $377,187, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016. Total bonds outstanding at June 30, 2007, include $66,480 of certificates of ownership of supplemental interest payments and $6,100 of capital appreciation maturing through 2010.	1,447,777
$214,700 2004 general obligation refunding serial bonds, due in annual principal installments ranging from $35,000 to $32,000,000, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2016.	214,700
$1,168,000 2006 general obligation refunding serial bonds, due in annual principal installments ranging from $6,574 to $518,254, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	$ 1,168,000
Total General Obligation Bonds	**$ 3,318,160**
Deferred amounts on refundings	38,192
Certificates of Supplemental Interest	(66,480)
Total General Obligation Bonds not including deferred amounts on refundings and certificates of supplemental interest	$ 3,289,872

Municipal Development Corp. Bonds

$20,600,000 2001 City of Mesa Municipal Development Corp., excise tax revenue refunding bonds, series 2001 serial bonds, due in annual principal installments ranging from $800,000 to $5,100,000, plus semi-annual interest ranging from 3.50 percent to 4.25 percent through January 1, 2008.	$ 5,100,000
Total Municipal Development Corp. Bonds	**$ 5,100,000**

Utility Systems Revenue Bonds

$94,730,000 1997 utility systems revenue serial bonds (partially refunded by 1998, 2002 & 2006 utility systems revenue refunding bonds), due on July 1, 2012, plus semi-annual interest of 7.25 percent through July 1, 2012.	$ 4,000,000

(Continued)

$34,600,000 1998 utility systems revenue serial bonds (partially refunded by 2002A, 2006 & 2006 (2nd Series) utility systems revenue refunding bonds), due in annual principal installments ranging from $1,000,000 to $4,500,000, plus semi-annual interest ranging from 4.50 percent to 6.50 percent through July 1, 2018.	17,175,000
$32,500,000 1998 utility systems revenue refunding serial bonds (partially refunded by 2002A & 2006 utility systems revenue refunding bonds), due in annual principal installments ranging from $100,000 to $9,105,000, plus semi-annual interest ranging from 4.25 percent to 5.00 percent through July 1, 2013.	16,314,056
$69,200,000 2000 utility systems revenue serial bonds (partially refunded by 2002, 2002A & 2004 utility systems revenue refunding bonds), due in annual principal installments ranging from $4,200,000 to $5,250,000, plus semi-annual interest of 6.50 percent through July 1, 2011.	14,450,000
$57,950,000 2002 utility systems revenue serial bonds (partially refunded by 2004 & 2006 utility systems revenue refunding bonds), due in annual principal installments ranging from $950,000 to $1,000,000, plus semi-annual interest ranging from 4.25 percent to 5.75 percent through July 1, 2017.	8,950,000
$129,000,000 2002 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $65,000 to $29,550,000, plus semi-annual interest ranging from 3.40 percent to 5.25 percent through July 1, 2017.	125,655,279
$48,850,000 2002A utility systems revenue refunding serial bonds, due in annual principal installments ranging from $40,000 to $17,890,000, plus semi-annual interest ranging from 3.00 percent to 5.00 percent through July 1, 2017.	46,988,080
$50,470,000 2003 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $970,000 to $25,500,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	24,970,000
$64,625,000 2004 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $1,125,000 to $11,000,000, plus semi-annual interest ranging from 5.00 percent to 6.00 percent through July 1, 2028.	6,125,000
$40,345,000 2004 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $20,000 to $21,010,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2019.	38,020,630
$91,200,000 2005 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $750,000 to $24,000,000, plus semi-annual interest ranging from 4.125 percent to 5.0 percent through July 1, 2029.	71,200,000
$105,400,000 2006 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $8,650,000 to $36,750,000, plus semi-annual interest ranging from 4.375 percent to 5.0 percent through July 1, 2030.	87,325,000

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$61,300,000 2006 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $2,075,000 to $18,000,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2021.	57,246,537
$127,260,000 2006 (Series 2) utility systems revenue refunding serial bonds, due in annual principal installments ranging from $50,000 to $25,845,000 plus semi-annual interest ranging from 4.0 percent to 5.25 percent through July 1, 2028.	118,769,196
$65,550,000 2007 utility systems revenue serial bonds, due in annual principal installments ranging from $2,500,000 to $41,800,000 plus semi-annual interest ranging from 4.25 percent to 6.25 percent through July 1, 2031.	$65,550,000
Total Utility Systems Revenue Bonds	**$702,738,778**
Deferred amounts on refundings	20,446,222
Total Utility System Revenue Bonds not including deferred amounts on refundings	723,185,000
Total bonds payable recorded in business-type activities	**$711,156,938**

The following tables summarize the City's debt service requirements to maturity for its long term bonds payable at June 30, 2007. The Municipal Development Corporation variable rate debt issue, the accretion of certificates of supplementary interest payments and the deferred amounts on refundings are not included.

Governmental Activities

	General Obligation Bonds				Highway User Revenue Bonds		
Fiscal Year	**Principal**	**Interest**	**Total**	**Fiscal Year**	**Principal**	**Interest**	**Total**
2008	16,939,682	10,857,828	27,797,510	2008	170,000	6,906,765	7,076,765
2009	16,017,910	9,977,176	25,995,086	2009	2,025,000	6,822,668	8,847,668
2010	16,783,189	9,838,098	26,621,287	2010	5,720,000	6,691,417	12,411,417
2011	17,090,395	7,902,706	24,993,101	2011	6,030,000	6,365,243	12,395,243
2012	18,780,640	7,157,271	25,937,911	2012	6,390,000	6,028,242	12,418,242
2013-17	61,515,512	24,713,130	86,228,642	2013-17	36,825,000	25,351,438	62,176,438
2018-22	50,707,800	9,728,733	60,436,533	2018-22	46,300,000	15,844,425	62,144,425
2023-27	25,280,000	3,283,425	28,563,425	2023-27	39,000,000	4,491,250	43,491,250
TOTALS	$ 223,115,128	$ 83,458,367	$ 306,573,495	TOTALS	$ 142,460,000	$ 78,501,448	$ 220,961,448

(Continued)

Special Assessment Bonds

Fiscal Year	Principal	Interest	Total
2008	751,840	457,396	1,209,236
2009	752,000	417,040	1,169,040
2010	744,000	376,920	1,120,920
2011	744,000	337,040	1,081,040
2012	744,000	297,160	1,041,160
2013-17	3,722,000	887,500	4,609,500
2018-22	1,340,000	155,440	1,495,440
TOTALS	$ 8,797,840	$ 2,928,496	$ 11,726,336

Business-type Activities

General Obligation Bonds

Fiscal Year	Principal	Interest	Total
2008	318	168,887	169,205
2009	332,090	168,874	500,964
2010	266,811	176,362	443,173
2011	469,605	122,824	592,429
2012	679,360	103,842	783,202
2013-17	1,394,488	148,939	1,543,427
2018-22	147,200	7,360	154,560
2023-27			-
2028-31			-
TOTALS	$ 3,289,872	$ 897,088	$ 4,186,960

Revenue Bonds

Fiscal Year	Principal	Interest	Total
2008	9,210,000	35,366,577	44,576,577
2009	9,715,000	34,414,760	44,129,760
2010	10,375,000	33,893,560	44,268,560
2011	12,475,000	33,280,060	45,755,060
2012	24,740,000	32,625,322	57,365,322
2013-17	187,680,000	138,410,002	326,090,002
2018-22	151,245,000	93,868,825	245,113,825
2023-27	160,895,000	56,639,223	217,534,223
2028-31	156,850,000	17,278,250	174,128,250
TOTALS	$ 723,185,000	$ 475,776,579	$ 1,198,961,579

Municipal Development Corporation Bonds

Fiscal Year	Principal	Interest	Total
2008	5,100,000	108,375	5,208,375
TOTALS	$ 5,100,000	$ 108,375	$ 5,208,375

(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 collected to retire the bonds issued to finance the improvements. At June 30, 2007, 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, 2007 are $8,797,840.

General Obligation Bonds
The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, $3,318,160 of these bonds at June 30, 2007 is carried as a liability of the Enterprise Fund to reflect the intention of retirement from resources of that fund.

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

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

The total debt margin available July 1, 2007 is:

6% Bonds	$224,418,273
20% Bonds	618,953,829
Total Available	$843,372,102

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, 2007, the amount provided in the Replacement and Extension Funds equaled $6,624,363 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 notes outstanding as of June 30, 2007, as presented in the business-type activities.

Fiscal Year Ending June 30	Principal	Interest	Total
2008	157,898	30,677	188,575
2009	98,376	23,295	121,671
2010	104,464	17,207	121,671
2011	110,929	10,742	121,671
2012	117,795	3,876	121,671
TOTALS	$ 589,462	$ 85,797	$ 675,259

(Continued)

e. **Lease Obligations**

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007. The deferred amounts on refundings are not included.

	Governmental Activities			Business-type Activities		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2008	8,015,639	856,948	8,872,587	1,328,216	79,562	1,407,778
2009	7,219,745	542,230	7,761,975	1,382,868	37,377	1,420,245
2010	3,752,257	305,412	4,057,669	158,413	3,558	161,971
2011	2,649,902	155,605	2,805,507			-
2012	733,599	60,147	793,746			
2013	617,490	24,115	641,605			-
TOTALS	$ 22,988,632	$ 1,944,457	$ 24,933,089	$ 2,869,497	$ 120,497	$ 2,989,994

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Land	$ 3,642,860	$ -
Buildings	11,167,294	-
Other Improvements	3,933,180	10,646,407
Machinery & Equipment	28,918,483	2,813,974
Infrastructure	85,936	-
Construction Work in Process	1,980,648	
Less: Accumulated depreciation	(12,162,963)	(8,558,571)
Total	$ 37,565,438	$ 4,901,810

f. **Short-term Debt**

The City had no short-term debt activity for the fiscal year ended June 30, 2007.

(Continued)

6. DEMAND BONDS

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 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 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. The Series A 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 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. The repayment of these bonds, assuming the interest rate of 3.73 percent at June 30, 2007, is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	-	371,881	371,881
2009	1,370,000	335,684	1,705,684
2010	1,600,000	278,507	1,878,507
2011	1,800,000	213,543	2,013,543
2012	1,200,000	162,255	1,362,255
2013-2017	4,000,000	341,915	4,341,915
	$ 9,970,000	$ 1,703,785	$ 11,673,785

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.

(Continued)

The annual fee for the letter of credit is .20 percent per annum of the maximum amount available under the agreement. The agreement expires on the earlier of November 30, 2015 or the occurrence of certain specified events. As of June 30, 2007, 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 $9,970,000 could not be remarketed, the maximum debt service requirements would be $11,633,488.

7. REFUNDING BONDS

On December 20, 2006, the City issued $127,260,000 of utility system revenue bonds with an original issue premium of $8,532,190 to advance refund $124,370,000 of outstanding utility system revenue bonds. The refunding bonds were issued with an average interest rate of 4.19 percent. The net proceeds of $134,487,222 (after payment of $1,304,968 to the City) were provided to a refunding escrow agent to pay issuance costs of $1,381,556 for insurance premiums, underwriting fees and other issuance costs with the remaining $133,105,666 used to provide cash and purchase United States Government securities. The cash and securities were deposited in an irrevocable trust to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the debt of the City.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $8,735,666. This difference, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations through the year 2028 using the effective interest method. The purpose of the refunding was to take advantage of lower interest rates and restructuring debt service payments to achieve a more level debt retirement schedule. The refunding will decrease debt service payments by $4,895,902 over the next 21 years producing an economic gain (difference between the present value of old and new debt service payments) of $4,829,709.

8. LIABILITIES TO BE PAID FROM ASSETS HELD IN ESCROW

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

(Continued)

In accordance with GASB Statement No. 7, the refunded debt outstanding at June 30, 2007 as reflected below is not included in the City's financial statements.

Utility Systems Revenue Bond Issue dated September 1, 1995	$ 7,000,000
Utility System Revenue Bond Issue dated April 1, 1997	7,000,000
General Obligation Bond Issue dated April 1, 1997	6,650,000
Utility System Revenue Refunding Bond Issue dated March 1, 1998	13,715,000
General Obligation Bond Issue dated March 1, 1998	28,000,000
Utility System Revenue Bond Issue dated March 1, 1998	17,425,000
General Obligation Bond Issue dated November 1, 1999	37,500,000
Street and Highway User Revenue Bond Issue dated November 1, 1999	6,925,000
General Obligation Bond Issue dated November 1, 2000	31,250,000
Utility System Revenue Bond Issue dated November 1, 2000	54,750,000
Street and Highway User Revenue Bond Issue dated November 1, 2000	17,000,000
General Obligation Bond Issue dated January 1, 2002	23,000,000
Utility System Revenue Bond Issue dated January 1, 2002	49,000,000
Street and Highway User Revenue Bond Issue dated January 1, 2002	23,000,000
Utility System Revenue Bond Issue dated March 1, 2003	25,500,000
Street and Highway User Revenue Bond Issue dated June 1, 2004	8,000,000
Utility System Revenue Bond Issue dated June 1, 2004	58,500,000
Utility System Revenue Bond Issue dated June 1, 2005	20,000,000
Utility System Revenue Bond Issue dated June 1, 2006	18,075,000
Total Refunded Bonds Outstanding	$452,290,000

(Continued)

9. CAPITAL CONTRIBUTIONS

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

	Property Owners	Governmental Agencies	Developers	Total
Governmental Activities:				
Federal and State Funds	$ -	$ 3,324,028	$ -	$ 3,324,028
Contributions - Capital Assets	117,627	8,986,001	28,475,295	37,578,923
Total	$ 117,627	$ 12,310,029	$ 28,475,295	$ 40,902,951
Business-type Activities:				
Federal and State Funds	$ -	$ 992,847	$ -	$ 992,847
Developers - Impact and Development Fees	-	-	5,761,946	5,761,946
Contributions-In-Aid	1,367,685	-	307,818	1,675,503
Contributions - Capital Assets	162,099	8,819,971	3,311,875	12,293,945
Total	$ 1,529,784	$ 9,812,818	$ 9,381,639	$ 20,724,241

In addition, during the year a net transfer from the business-type activities of existing capital assets with a book value of $5,734,632 that were also recorded as capital contributions from governmental funds in the proprietary funds' financial statements and as a transfer in the government-wide statement of activities.

10. COMMITMENTS AND CONTINGENT LIABILITIES

a. <u>Pending Litigation</u>

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

(Continued)

b. **Sick Leave Benefits**

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

The total sick leave balance at June 30, 2007, was $37,695,988 of which $9,292,662 is recorded as a liability.

11. ENTERPRISE ACTIVITIES OPERATIONS DETAIL

The Enterprise Fund includes operations of electricity, gas, water, wastewater, solid waste, airport, golf course, convention center and district cooling. Although the City's Enterprise Fund does not meet the requirements for disclosing segment information, these services provided by the City are of such significance as to warrant certain additional disclosures. Operating revenue, expenses and operating income for the year ended June 30, 2007 for these services are as follows:

		Operating Expenses		
Functions	**Operating Revenues**	**Depreciation and Amortization**	**Other**	**Operating Income (Loss)**
Electric	$ 34,518,898	$ 3,345,934	$ 22,791,513	$ 8,381,451
Gas	45,250,476	2,318,816	34,474,868	8,456,792
Water	92,007,207	16,165,086	30,374,210	45,467,911
Wastewater	55,398,349	16,910,429	21,664,505	16,823,415
Solid Waste	42,894,663	1,606,200	26,290,110	14,998,353
Airport	2,953,825	1,173,170	1,507,743	272,912
Golf Course	2,456,596	241,595	2,299,788	(84,787)
Convention Center	4,745,578	275,876	5,384,020	(914,318)
District Cooling	192,972	874,192	216,740	(897,960)
Total	$ 280,418,564	$ 42,911,298	$ 145,003,497	$ 92,503,769

(Continued)

12. NET ASSETS

a. Restricted Net Assets

The government-wide statement of net assets reports $191,863,422 of restricted net assets, of which $72,140,887 is restricted by enabling legislation.

b. Designated Net Assets

The net assets 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 net assets 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.

13. PLEDGED REVENUES

The City has pledged future utility customer revenues, net of specified operating expenses, to repay $723.2 million in utility system revenue bonds issued since 1997. Proceeds from the bonds provided financing for the construction of various utility related projects including new gas pipelines and water and wastewater treatment plants. The bonds are payable solely from utility customer net revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 32 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,198,961,579. Principal and interest paid for the current year and total customer net revenues were $29,644,976 and $94,127,922, respectively.

14. JOINT VENTURES

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

The System has no debt outstanding. Audited summary financial information on the System (GAAP basis) as of and for the fiscal year ended June 30, 2006 (latest information available) is as follows:

(Continued)

Assets	
Equity in Pooled Cash and Investments	$ 62,316,000
Receivables	14,268,000
Inventories at Average Cost	822,000
Capital Assets	596,544,000
Total Assets	673,950,000
Liabilities	69,808,000
Net Assets	$ 604,142,000
Total Revenues	$ 60,554,000
Total Expenses	(62,724,000)
Decrease in Net Assets	$ (2,170,000)

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's investment in the joint venture is reflected in the proprietary funds financial statements.

The water treatment plant has no debt outstanding. Audited summary financial information for the plant (GAAP basis) as of and for the fiscal year ended June 30, 2006 (latest information available) is as follows:

(Continued)

Assets	
Equity in Pooled Cash and Investments	$ 3,002,000
Receivables	8,209,000
Capital Assets, Net of Accumulated Depreciation	171,289,000
Total Assets	182,500,000
Liabilities	8,052,000
Net Assets	$ 174,448,000
Total Revenues	$ 33,026,000
Total Expenses	(24,973,000)
Increase in Net Assets	$ 8,053,000

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

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

Total Investment in the Joint Venture as of June 30, 2007 is:

Mesa's Share	$ 80,659,542
Gilbert's Share	76,836,754
Queen Creek's Share	33,777,911
Total Joint Venture	$191,274,207

(Continued)

In June 2002, the City agreed to participate in the Central Phoenix/East Valley Light Rail Transit (LRT). The City participates with the cities of Phoenix, Tempe and Glendale. Valley Metro Rail, Inc. (VMR) will design, construct, and operate the LRT project. A total of $32,732,215 has been spent on this project through fiscal year end 2007. The City has received $18.6 million of funding from the Federal Transit Administration (FTA); Congestion Mitigation Air Quality (DMAQ) and Public Transit Funds (PTF) related to this project. The City's investments in the Joint Venture is reflected in the governmental activities column on the government-wide financial statements.

Audited summary financial information on the system (GAAP basis), as of and for the fiscal year ends June 30, 2006, (latest information available) is as follows:

Assets	
Current Assets	$ 170,236,566
Non Current Assets	460,380,300
Total Assets	630,616,866
Liabilities	170,236,566
Net Assets	$ 460,380,300
Total Revenues	$ 238,191,065
Total Expenses	13,716,617
Increase in Net Assets	$ 224,474,448

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

(Concluded)

CITY OF MESA, ARIZONA
EXHIBIT B-1
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance With Final Budget - Positive (Negative)
Revenues:				
Taxes	$ 156,291,000	$ 156,291,000	$ 156,905,125	$ 614,125
Licenses and Permits	16,769,000	16,769,000	14,288,518	(2,480,482)
Intergovernmental	141,858,000	141,858,000	134,996,455	(6,861,545)
Charges For Services	19,145,000	19,145,000	18,901,904	(243,096)
Fines and Forfeitures	10,839,000	10,839,000	13,685,021	2,846,021
Investment Income	1,600,000	1,600,000	4,379,672	2,779,672
Miscellaneous	2,941,000	2,941,000	5,248,664	2,307,664
Total Revenues	349,443,000	349,443,000	348,405,359	(1,037,641)
Less: Bad Debts	(3,200,000)	(3,200,000)	(4,429,356)	(1,229,356)
Total Net Revenues	346,243,000	346,243,000	343,976,003	(2,266,997)
Expenditures:				
Current:				
General Government	49,233,972	49,489,950	42,152,077	7,337,873
Public Safety	220,444,155	220,618,260	211,462,565	9,155,695
Cultural-Recreational	60,312,484	61,596,513	55,293,891	6,302,622
Community Environment	16,349,338	17,514,598	11,215,020	6,299,578
Capital Outlay	64,882,804	65,415,751	36,908,429	28,507,322
Contingencies	39,239,000	34,650,226	-	34,650,226
Debt Service:				
Principal Retirement	132,355	132,355	132,355	-
Interest/Service Charges on Bonds	5,877,345	5,877,345	6,001,060	(123,715)
Total Expenditures	456,471,453	455,294,998	363,165,397	92,129,601
Deficiency of Revenues Under Expenditures	(110,228,453)	(109,051,998)	(19,189,394)	89,862,604
Other Financing Sources (Uses):				
Transfers In	75,913,000	75,913,000	67,188,000	(8,725,000)
Transfers Out	(5,772,000)	(5,772,000)	(6,291,000)	(519,000)
Total Other Financing Sources (Uses)	70,141,000	70,141,000	60,897,000	(9,244,000)
Net Change in Fund Balance	(40,087,453)	(38,910,998)	41,707,606	80,618,604
Fund Balance - Beginning	29,342,095	29,342,095	31,365,097	2,023,002
(Increase) Decrease in Restricted Fund Balance	10,745,358	10,745,358	(13,730,459)	(24,475,817)
Fund Balance - Ending	$ -	$ 1,176,455	$ 59,342,244	$ 58,165,789

See Note to Required Supplementary Information.

CITY OF MESA, ARIZONA
EXHIBIT B-2
HIGHWAY USER REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance With Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	$ 37,043,000	$ 37,043,000	$ 39,980,272	$ 2,937,272
Charges For Services	97,000	97,000	58,354	(38,646)
Fines and Forfeitures	16,000	16,000	70,847	54,847
Investment Income	525,000	525,000	465,593	(59,407)
Miscellaneous	15,000	15,000	395,957	380,957
Total Revenues	37,696,000	37,696,000	40,971,023	3,275,023
Expenditures:				
Current:				
Community Environment	33,330,725	34,829,422	34,829,422	-
Capital Outlay	3,397,488	3,397,488	2,475,813	921,675
Contingencies	5,279,000	3,780,303	-	3,780,303
Debt Service:				
Principal Retirement	165,000	165,000	165,000	-
Interest/Service Charges on Bonds	6,564,601	6,564,601	6,401,787	162,814
Total Expenditures	48,736,814	48,736,814	43,872,022	4,864,792
Deficiency of Revenues Under Expenditures	(11,040,814)	(11,040,814)	(2,900,999)	8,139,815
Fund Balance - Beginning	12,868,312	12,868,312	10,780,050	(2,088,262)
Fund Balance - Ending	$ 1,827,498	$ 1,827,498	$ 7,879,051	$ 6,051,553

Budget Basis

Actual amounts (budgetary basis) "Net Change in Fund Balance" from the budgetary comparison schedule	$ (2,900,999)

Basis Difference

Unrealized Gain on Investment	3,900

GAAP Basis

Actual amount (GAAP) basis "Net Change in Fund Balance" as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds Exhibit A-5	$ (2,897,099)

See Note to Required Supplementary Information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Adjustments necessary to convert the results of operations of the General Fund for the year ended June 30, 2007 on the “GAAP basis” to the “budget basis” as follows:

Net Change in Fund Balance-Budget Basis - Exhibit B-1	$ 41,707,606
Basis Differences:	
Compensated Absences	64,971
Special Assessments	128,068
Sales Tax Accrual	1,192,122
Unrealized Gain on Investments	118,305
Timing Differences:	
Grants & Contributions	223,910
Interest Earnings in Escrow Account	98,331
Debt Service Activities	(77,840)
City of Phoenix Light Rail Accrual	1,500,000
Net Change in Fund Balance-GAAP Basis - Exhibit A-5	$ 44,955,473

APPENDIX E

SUMMARY OF MASTER RESOLUTION

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SUMMARY OF THE MASTER RESOLUTION, AS AMENDED

The following is a summary of certain provisions of the Master Resolution, which was adopted by the Mayor and Council of the City of Mesa on July 29, 1991, as amended. A summary of the Eighteenth Supplemental Resolution follows this Summary of the Master Resolution. The Eighteenth Supplemental Resolution is substantially the same as the other seventeen Supplemental Resolutions and the Nineteenth Supplemental Resolution, which is to be adopted concurrently with the Eighteenth Supplemental Resolution, authorizing the Series 2008 Refunding Bonds. 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 2008 Bonds. In addition the Master Resolution was amended in 2002, changing the requirements pertaining to the Reserve Fund. The summary does not purport to be a full statement of the terms of the Master Resolution and, accordingly, is qualified by reference hereto and is subject to the full text thereof.

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

"Agreement" - any Reserve Fund Guaranty Agreement.

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

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

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

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

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

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

"City" - the City of Mesa, Arizona.

"Council" - the governing body of the City.

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

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

"Drawdown Date" - the date of any Drawdown.

"Finance Director" - the City Finance Director.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(9) Repurchase agreements, the maturity of which are less than thirty (30) days, entered into with financial institutions such as banks or trust companies organized under state law or national banking associations, insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Authorization of Bonds; Special Obligations.

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

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

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

Rate Covenant. The City covenants and agrees with the Owners that it will establish and maintain System charges to provide Revenues sufficient to pay all Operating Expenses and to produce aggregate Net Revenues in each Fiscal year equal to one hundred twenty percent (120%) of the current principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the

Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and said rates, fees and other charges shall also be established and maintained at rates sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year.

Creation of Funds: Application of Revenues.

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

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

(1) **Bond Fund**. First, to the Bond Fund: (a) Commencing September 10, 1991, through December 10, 1991, one-fourth (1/4th) of the amount which, when added to accrued interest received from the Series 1991 Bonds, will be sufficient to pay all interest coming due January 1, 1992, and commencing January 10, 1992, one-sixth (1/6th) of the interest becoming due on the next interest payment date on all of the Bonds then Outstanding and; (b) Commencing September 10, 199 1, through June 10, 1992, one-tenth (1/10th) and commencing July 10, 1992, one-twelfth (1/12th) of the principal becoming due on the next succeeding principal or mandatory redemption payment date on all bonds then Outstanding. The Bond Fund shall be a trust fund and shall be used solely for the purpose of paying the principal of and interest on the Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

Modification of Resolution.

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

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

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

Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

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

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

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

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

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

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

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

Reporting Requirements.

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

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

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

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

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

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

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

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

SUMMARY OF EIGHTEENTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Eighteenth Supplemental Resolution, which supplements the Master Resolution and authorizes the issuance of the Utility System Revenue Bonds, Series 2008, adopted by the Mayor and Council on May 8, 2008. The summary does not purport to be a full statement of the terms of the Eighteenth Supplemental Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Authority. The Series 2008 Bonds are authorized to be issued pursuant to Title 9, Chapter 5, Article 3, of the Arizona Revised Statutes, as amended, the Master Resolution (as amended and supplemented), the Eighteenth Supplemental Resolution and other applicable provisions of law. It is determined that all limitations imposed on the City by A.R.S. Section 9-521 et. seq. have been met with respect to the Series 2008 Bonds. The Master Resolution, as amended and supplemented, and the Eighteenth Supplemental Resolution, shall stay in effect until all Bonds are fully paid or provided for and all Policy Costs shall have been paid in full.

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

"Bond Registrar for the Series 2008 Bonds" – U.S. Bank National Association, Phoenix, Arizona, or its successor, as bond registrar.

"Bond Year" - initially the period from the date of the Series 2008 Bonds to July 1, 2008, and thereafter the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the City's Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Series 2008 Insurer" shall mean Financial Security Assurance Inc..

"Series 2008 Bonds" - the City's $52,875,000 Utility Systems Revenue Bonds, Series 2008.

"Eighteenth Supplemental Resolution" – The Eighteenth Supplemental Resolution supplementing the Master Resolution and authorizing the issuance of the Series 2008 Bonds.

Authorization of Series 2008 Bonds: Special Obligations.

A. There is authorized the issuance and sale of $52,875,000 City of Mesa, Arizona Utility Systems Revenue Bonds, Series 2008. The Series 2008 Bonds shall never be construed to be tax secured bonds of the City as defined in Section 9-531 or Section 9-521, A.R.S., or general obligation bonds of the City within the meaning of Title 35, Chapter 3, Article 3, A.R.S., or constitute a debt of the City within the Constitution and laws of the State.

B. The Series 2008 Bonds are special obligations of the City payable solely from the Net Revenues and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms, the Master Resolution, and the Eighteenth Supplemental Resolution. Subject to the Master Resolution, the Net Revenues are pledged and assigned as security for the payment of the principal and redemption price of, and interest on, the Series 2008 Bonds in accordance with their terms, the Master Resolution and the provisions of the Eighteenth Supplemental Resolution. All Net Revenues shall be immediately subject to the pledge of the Master Resolution, as amended and supplemented and the Eighteenth Supplemental Resolution, without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such persons have notice thereof. Nothing contained in this section shall be construed as limiting any authority granted elsewhere in the Master Resolution to issue Parity Bonds nor shall be deemed a limitation upon the issuance of bonds, notes or other obligations under any law pertaining to the City which are secured by moneys, income and funds other than the Net Revenues and other moneys and investments pledged under the Master Resolution and the Eighteenth Supplemental Resolution.

C. In addition to the payments required to be made into the Bond Fund required by the Master Resolution and the previous supplemental resolutions, the following additional payments shall be made to the Bond Fund with respect to the Series 2008 Bonds on or before the tenth (10th) day of each month: (1) Commencing January 10, 2009 one-sixth (1/6) of the interest coming due on the next interest payment date on all of the Series 2008 Bonds then Outstanding; and (2) Commencing July 10 in the calendar year preceding the calendar year in which occurs the first principal payment date on the Series 2008 Bonds, one-twelfth (1/12) of the principal becoming due on the next succeeding principal payment date on all Series 2008 Bonds then Outstanding.

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

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

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Registrar and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

NEITHER THE CITY, THE BOND REGISTRAR NOR THE FINANCIAL ADVISOR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS, OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS OR THE CERTIFICATES UNDER THE RESOLUTIONS; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST OR PAYMENT AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OR INTEREST OR PAYMENT AMOUNT DUE WITH RESPECT TO THE BONDS OR THE CERTIFICATES; (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS OR CERTIFICATES; OR (5) ANY OTHER MATTERS.

APPENDIX G

FORM OF APPROVING LEGAL OPINION

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MAYOR AND COUNCIL
CITY OF MESA, ARIZONA

Re: City of Mesa, Arizona, Utility Systems
Revenue Bonds, Series 2008

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the "*City*") of its $52,875,000 aggregate principal amount Utility Systems Revenue Bonds, Series 2008, dated as of the date of initial delivery (the "*Bonds*"), issued pursuant to Title 9, Chapter 5, Article 3, Arizona Revised Statutes, and all amendments thereto (the "*Act*").

We have examined the law and such documents and matters as we have deemed necessary to render this opinion, including, without limitation, Resolution No. 6362 and Resolution No. 9245 authorizing the issuance of the Bonds (collectively, the "*Resolution*"), passed and adopted by the Mayor and Council of the City. As to questions of fact material to our opinion we have relied upon, and assumed due and continuing compliance with the provisions of, the proceedings and other documents, and have relied upon certifications, covenants and representations furnished to us without undertaking to verify the same by independent investigation, including, without limitation, those with respect to causing interest on the Bonds to be and remain excluded from gross income for federal income tax purposes.

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

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

2. Pursuant to the Act, the Resolution creates a valid lien for the security of the Bonds on the revenues derived by the City from its utility System (as defined in the Resolution) after provision for expenses of operation and maintenance of the System as provided in the Resolution, on a parity, however, with other obligations of the City issued or to be issued under the Resolution but subject to the rights of the owners of certain bonds refunded by the irrevocable deposit in trust of moneys and obligations issued by or guaranteed by the United States government or its agencies to an equal claim on such revenues in the event the trust does not provide for all payments when due on such refunded bonds.

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

4. Under existing laws, regulations, rulings and judicial decisions, the interest income on the Bonds is excluded from gross income for the purpose of calculating federal income taxes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of tax preference to be included in computing the alternative minimum tax of individuals or corporations; however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain corporations, which income is subject to the federal alternative minimum tax. The Bonds are not private activity bonds within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended (the "*Code*"). We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

GUST ROSENFELD P.L.C.

Bond Counsel

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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$52,875,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS
SERIES 2008

CONTINUING DISCLOSURE CERTIFICATE
(CUSIP Base No. 590545)

This Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the City of Mesa, Arizona (the "*City*") in connection with the issuance of the City's Utility Systems Revenue Bonds, Series 2008 (the "*Bonds*"). In consideration of the initial sale and delivery of the Bonds, the City covenants as follows:

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

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

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

"*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.

"*Central Post Office*" shall mean an entity approved as such by the Securities and Exchange Commission. At present the Internet-based electronic filing system operated by the Municipal Advisory Council of Texas under the name of "Disclosure USA" at the following internet address site: www.DisclosureUSA.org is approved for such purpose.

"*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.

"*Official Statement*" shall mean the final official statement dated May 8, 2008, relating to the Bonds.

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

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

"*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 the Dissemination Agent to, not later than February 1 of each year (the "*Filing Date*"), commencing February 1, 2009, provide to the Central Post Office 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 six (6) months after the end of such fiscal year. Notice of any such change in the City's fiscal year will be filed with the Central Post Office. 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 Central Post Office an Annual Report by the Filing Date required in subsection (a), the City shall promptly send a notice to the Central Post Office 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 Central Post Office 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 the Central Post Office 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 the Central Post Office and, if necessary, 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 the Central Post Office 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 the Central Post Office 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 subsections of the Official Statement:

Combined Schedules of Net System Revenues and Debt Service Coverage; and
APPENDIX B – Financial Data – Statements of Bonds Outstanding.

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

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

(c) Any or all of the items listed 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 the Central Post Office 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:

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
(v) Substitution of credit or liquidity providers, or their failure to perform;
(vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
(vii) Modifications to rights of Bondholders;
(viii) Bond calls;
(ix) Defeasances;
(x) Release, substitution, or sale of property securing repayment of the Bonds; and
(xi) 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 the Central Post Office; provided, that any event under subsection (a)(i), (viii), (ix) or (xi) 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 a majority of the Bondholders . Notice of any amendment to the accounting principles shall be sent within 30 days to the Central Post Office.

Section 9. **Central Post Office**. In the event the Central Post Office is not an acceptable filing repository for purposes of the Rule, the City shall, or shall cause the Dissemination Agent to, file all items required to be filed with the Central Post Office with each National Repository and, if any, the State Repository.

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

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

Section 12. **Compliance by City**. The City hereby covenants to comply with the terms of this Disclosure Certificate. The City expressly acknowledges and agrees that compliance with the undertaking contained in this Disclosure Certificate is its sole responsibility and the responsibility of the Dissemination Agent, if any, and that such compliance, or monitoring thereof, is not the responsibility of, and no duty is present with respect thereto for, the Participating Underwriter, Bond Counsel or the City's financial advisor.

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

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

Section 15. **Governing Law 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.

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

Date: May 29, 2008.

CITY OF MESA, ARIZONA

By ____________________________________

Deputy City Manager

EXHIBIT A

NOTICE OF FAILURE TO FILE

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $52,875,000 Utility Systems Revenue Bonds, Series 2008
Dated Date of Bonds: May 29, 2008 CUSIP: 590545

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated May 29, 2008. The City anticipates that the Annual Report will be filed by ____________________.

Dated: _____________________

CITY OF MESA, ARIZONA

By ____

EXHIBIT B

NOTICE OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $52,875,000 Utility Systems Revenue Bonds, Series 2008
Dated Date of Bonds: May 29, 2008 CUSIP: 590545

NOTICE IS HEREBY GIVEN that the City failed to provide its audited financial statements with its Annual Report or, if not then available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated May 29, 2008 with respect to the above-named Bonds. The City anticipates that the audited financial statements for the fiscal year ended June 30, ____ will be filed by ______________________.

Dated: ______________________

CITY OF MESA, ARIZONA

By ____

EXHIBIT C

NOTICE OF FAILURE TO APPROPRIATE FUNDS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: $52,875,000 Utility Systems Revenue Bonds, Series 2008
Dated Date of Bonds: May 29, 2008 CUSIP: 590545

NOTICE IS HEREBY GIVEN that the City failed to appropriate funds necessary to perform the undertaking required by the Disclosure Certificate dated May 29, 2008 with respect to the above-named Bonds.

Dated: ________________________

CITY OF MESA, ARIZONA

By ____

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ____________________ By ____________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

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PEACOCK, HISLOP, STALEY & GIVEN, INC.

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