

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: See “RATINGS” herein.

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

\$30,220,000

**CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2015**

Dated: Date of Initial Delivery

Due: July 1, as shown below

The City of Mesa, Arizona (the “City”) Utility Systems Revenue Bonds, Series 2015 (the “Bonds”) will be initially issued in book-entry-only form in the name of Cede & Co., as nominee of The Depository Trust Company, a registered securities depository (“DTC”). Beneficial interests in the Bonds will be offered for sale in the amount of \$5,000 of principal due on a specific maturity date and integral multiples thereof. The Bonds are being issued to provide funds to (i) make improvements to the utility systems of the City and (ii) pay the 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, 2016, 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.”

See Inside Front Cover for Maturity Schedule and Additional Information

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 do not constitute an indebtedness or pledge of the general credit of the City within the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness, and the owners of the Bonds shall never have the right to compel any exercise of the taxing power of the City or to demand payment of the Bonds or interest thereon out of any funds other than from the Net Revenues. See “Security for and Sources of Payment of the Bonds.”**

Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid results in the lowest net interest cost to the City.

Electronic bids for the purchase of the Bonds will be received to, but not after, 10:30 a.m., Arizona Time (“P.D.T.”), on May 13, 2015, only through the facilities of PARITY, in accordance with the Notice Inviting Bids for the Purchase of Bonds (the “Notice”). Please refer to the Notice beginning on page (i) herein for additional information concerning bidding parameters and requirements for the purchase of the Bonds.

The Bonds are offered when, as and if issued by the City, subject to the approving opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. It is expected that the Bonds will be available for delivery on or about June 4, 2015*.

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.

* Subject to change.

\$30,220,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2015

MATURITY SCHEDULE*

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP(a) No. (Base No. 590545)</u>
2020	\$ 1,000,000		%	
2021	1,050,000			
2022	1,100,000			
2023	1,150,000			
2024	1,200,000			
2025	1,275,000			
2026	1,325,000			
2027	1,400,000			
2028	1,450,000			
2029	1,525,000			
2030	1,600,000			
2031	1,700,000			
2032	1,775,000			
2033	1,875,000			
2034	1,950,000			
2035	2,050,000			
2037	2,150,000			
2038	2,270,000			
2039	2,375,000			

* Subject to change.

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CITY OF MESA

CITY COUNCIL

John Giles, Mayor
Dennis Kavanaugh, Vice Mayor
Alex Finter, Councilmember
Christopher Glover, Councilmember
David Luna, Councilmember
Dave Richins, Councilmember
Kevin Thompson, Councilmember

CITY ADMINISTRATIVE OFFICERS

Christopher Brady, City Manager
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Michael Kennington, Chief Financial Officer
Dee Ann Mickelsen, City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Wedbush Securities Inc.
Phoenix, Arizona

REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the City of Mesa, Arizona (the “City”) Utility Systems Revenue Bonds, Series 2015 (the “Bonds”), identified on the cover page hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall be no sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

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

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

The City and Bond Counsel (as defined herein) are not actuaries, nor have any of them performed any actuarial or other analysis of the City’s unfunded liabilities under the Arizona State Retirement System, the Arizona Public Safety Personnel Retirement System or the Elected Officials Retirement Plan.

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

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\$30,220,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS,
SERIES 2015

NOTICE INVITING BIDS FOR THE PURCHASE OF BONDS
(Electronic Bidding Only)

NOTICE IS HEREBY GIVEN that unconditional bids will be received to and including the hour of 10:30 a.m., *Arizona Time* (“P.D.T.”), on May 13, 2015, by the City of Mesa, Arizona (the “City”), for the purchase of all, but not less than all, of \$30,220,000 aggregate principal amount of the City’s Utility Systems Revenue Bonds, Series 2015 (the “Bonds”). A bid may be submitted only through the facilities of PARITY (“PARITY”). Submission of bids is further discussed below. Through PARITY, the City’s Chief Financial Officer or Wedbush Securities Inc., the City’s financial advisor (the “Financial Advisor”), will electronically receive the bids at such time. The Mayor and Council will meet at the hour of 7:30 a.m. on May 14, 2015, for the purpose of considering bids received and, if an acceptable bid is received, awarding the contract for the purchase of the Bonds to the winning bidder.

The City reserves the right to continue the date for receipt of bids. If the date for receipt of bids is continued, prior to 10:30 a.m. P.D.T. on May 12, 2015, or prior to 10:30 a.m., P.D.T., on the day prior to the date to which receipt of bids has been continued, the City will give notice of the continuance through PARITY at www.ipreo.com.

The Bonds will be dated as of the date of initial delivery, and will bear interest from their date to the maturity of each of the Bonds at a rate or rates per annum of not to exceed eight percent (8.00%). Interest on the Bonds is payable semiannually on January 1 and July 1 during the term of the Bonds, commencing January 1, 2016. The Bonds will mature on July 1 in the years and in the principal amounts as follows:

Maturity Date (July 1)	Principal Amount	Maturity Date (July 1)	Principal Amount
2020	\$1,000,000	2030	\$1,600,000
2021	1,050,000	2031	1,700,000
2022	1,100,000	2032	1,775,000
2023	1,150,000	2033	1,875,000
2024	1,200,000	2034	1,950,000
2025	1,275,000	2035	2,050,000
2026	1,325,000		
2027	1,400,000	2037	2,150,000
2028	1,450,000	2038	2,270,000
2029	1,525,000	2039	2,375,000

TIME FOR RECEIPT OF BIDS: Bids will be received to and including the hour of 10:30 a.m. P.D.T., unless the sale is postponed. The time maintained by PARITY shall constitute the official time.

ELECTRONIC BIDDING PROCEDURES: All bids must be submitted only through the facilities of PARITY in accordance with this Notice Inviting Bids for the Purchase of Bonds (the “Notice”). The normal fee for the use of PARITY may be obtained from PARITY and such fee will be the responsibility of the bidder. All bids must be submitted on the official bid form that resides on the PARITY system (the “Official Bid Form”), without alteration or interlineation. Subscription to the Ipreo LLC’s BiDCOMP Competitive Bidding System is required in order to submit a bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. The City is using PARITY as a communication media, and not as the City’s agent, to conduct electronic bidding for the Bonds.

All bids made through the facilities of PARITY shall be deemed irrevocable offers to purchase the Bonds on the terms provided in this Notice and shall be binding upon the entity making the bid, as if made by a signed, sealed bid delivered to the City. The City and the Financial Advisor assume no responsibility or liability for bids submitted through PARITY. Neither the City nor the Financial Advisor shall be responsible for any malfunction

or mistake made by, or as result of the use of the electronic bidding facilities provided and maintained by, PARITY. The use of PARITY is at the sole risk of the prospective bidders.

If any provisions of this Notice shall conflict with information provided by PARITY, as the approved provider of electronic bidding services, this Notice shall control. Further information about PARITY, including any fee charged, may be obtained from BiDCOMP/PARITY, c/o Ipreo, 1359 Broadway, 2nd Floor, New York, New York 10018, Attn: Customer Support (212.849.5021).

Bidders are requested to state in their bids the net interest cost to the City, as described under “AWARD AND DELIVERY” herein. All electronic bids shall be deemed to incorporate the provisions of this Notice and the Official Bid Form.

PURPOSE: The Bonds are being issued for the purpose of making improvements to the utility systems of the City and to pay the costs of issuance of the Bonds.

BOOK-ENTRY-ONLY SYSTEM: The Bonds will be initially issued to, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as the securities depository of the Bonds for a book-entry-only system (the “*Book-Entry-Only System*”). Under the Book-Entry-Only System, beneficial ownership interests in the Bonds will be available in book-entry form only through direct or indirect DTC participants.

Ownership interests in the Bonds may be purchased in denominations of \$5,000 of principal amount due on a specific maturity date or integral multiples thereof.

Transfers of beneficial ownership interest in the Bonds will be accomplished by book entries made by DTC and the DTC Participants or Indirect DTC Participants who act on behalf of the beneficial owners (the “*Beneficial Owners*”). For every transfer and exchange of a beneficial interest in the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor securities depository), physical certificates representing the Bonds will be executed and delivered. In addition, the City may determine to discontinue the Book-Entry-Only System of transfers through DTC (or a successor securities depository). In such event, physical certificates representing the Bonds will be registered in the names of the Beneficial Owners and executed and delivered. Upon registration of Bonds in the Beneficial Owner's name, the Beneficial Owners will become the owners of the Bonds (the “*Owners of the Bonds*”) for all purposes, including the receipt of principal and interest payments and notices with respect to the Bonds.

For a more detailed description of the Book-Entry-Only System, see the information in the official statement relating to the Bonds entitled “BOOK-ENTRY-ONLY SYSTEM”.

OPTIONAL REDEMPTION: The Bonds maturing on or before July 1, 2025, are not subject to call for redemption prior to maturity. Bonds maturing on or after July 1, 2026 are subject to call for redemption prior to maturity, at the option of the City, in whole or in part, on July 1, 2025, or on any date thereafter by the payment of a redemption price equal to the principal amount of the Bonds called for redemption plus accrued interest to the date of redemption, but without premium.

NOTICE OF REDEMPTION: So long as the Bonds are held under the Book-Entry-Only System, notices of redemption will be sent to DTC in the manner required by DTC. If the Book-Entry-Only System is discontinued, notice of redemption of any Bond will be mailed to the registered owner of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the registrar not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Notice of redemption may be sent to any securities depository by mail, facsimile transmission, wire transmission or any other means of transmission of the notice generally accepted by the respective securities depository. Failure to properly give notice of redemption shall not affect the redemption of any Bond for which notice was properly given. A conditional notice of redemption may be mailed to the registered

owners prior to the deposit of funds for such redemption in the City's Debt Service Fund, conditional upon the deposit of such funds to said Debt Service Fund.

Notice of any redemption will also be sent to the Municipal Securities Rulemaking Board (the "MSRB"), currently through the MSRB's Electronic Municipal Market Access system ("EMMA"), in the manner required by the MSRB, but no defect in said further notice or record nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

If moneys 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 moneys being so held on 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.

REGISTRATION AND TRANSFER: U.S. Bank National Association will serve as bond registrar and paying agent with respect to the Bonds (the "Registrar"). If the Book-Entry-Only System is discontinued, the Registrar will administer registration and transfer of the Bonds and the Bonds will be transferable only upon the bond register to be maintained by the successor Registrar upon surrender to the Registrar. The Registrar may be changed without notice to any owner or beneficial owner of the Bonds.

PAYMENT OF BONDS: So long as the Bonds are held under the Book-Entry-Only System, all payments of principal and interest shall be paid to DTC. If the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check mailed on or prior to the interest payment date to the Owners of the Bonds at the addresses of such owners as they appear on the books of the Registrar on the record date (as described hereafter). Principal of, and premium, if any, on the Bonds shall be paid when due upon surrender of such Bonds at the designated corporate trust office of the Registrar (unless the Owner of the Bonds is eligible for payment by wire transfer). If the Book-Entry-Only System is discontinued, principal of the Bonds will be payable, when due, only upon presentation and surrender of the Bond at the designated corporate trust office of the Paying Agent (as defined hereafter). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds not less than twenty (20) days prior to an interest payment date, all payments of interest and, if adequate provision for surrender is made, principal shall be paid by wire transfer in immediately available funds to an account within the United States of America designated by such Owner. Notwithstanding any other provision, payment of principal of and interest on any Bond that is held by a securities depository or Bonds subject to a Book-Entry-Only System may be paid by the Paying Agent by wire transfer in "same day funds".

RECORD DATE: The record date for determination of ownership for payment of interest shall be the fifteenth calendar day prior to an interest payment date. The Registrar shall pay interest to the Owners of record on the record date notwithstanding that transfers of ownership may occur on any Bond between the record date and the next interest payment date.

SECURITY: The Bonds are payable as to both principal and interest solely from the net revenues derived by the City from the ownership, use and operation of its utility systems pursuant to law, including Title 9, Chapter 5, Article 3, Arizona Revised Statutes, as amended (the "Net Revenues"). Neither the Bonds nor the obligations of the City issued thereunder constitute a debt or a pledge of the full faith and credit of the City, the State or any political subdivision thereof. The Bonds are being issued on a parity of lien on such Net Revenues with the City's outstanding Systems Revenue Bonds and Utility Systems Revenue Refunding Bonds previously issued and the City's outstanding Loan Agreements with the Water Infrastructure and Finance Authority of Arizona. The aggregate outstanding principal amount for all parity obligations is presently \$1,001,339,351.

INTEREST RATES: Bids for the purchase of the Bonds must state the rate or rates of interest to be paid and no bid at a price less than the par value of the Bonds, together with all accrued interest thereon at the date of delivery of the Bonds, will be considered. All Bonds of the same maturity must bear the same rate of interest. The highest rate bid shall not exceed the lowest rate bid by more than three percent (3%) per annum. Bids must be expressed in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent. Interest will be calculated on the basis of a year comprised of 360 days consisting of twelve (12) months of thirty (30) days each.

Any interest rate bid which would result in an interest payment amount having fractional cents will be deemed a waiver of the right to payment of such fractional cents. No fractional cents will be paid or accumulated for payment on any Bond.

INFORMATION TO BE PROVIDED BY WINNING BIDDER: The winning bidder will be required to furnish to the City, at or before the closing, a certificate in a form acceptable to Gust Rosenfeld P.L.C. (“*Bond Counsel*”), Phoenix, Arizona, stating that it did offer all of the Bonds to the public in a bona fide public offering and it reasonably expected that a substantial amount of the Bonds of that maturity (i.e. at least ten percent (10%) of each maturity of the Bonds) would be sold by it, as of the sale date, (May 14, 2015), at the initial offering prices set forth in the certificate, together with such additional representations as Bond Counsel may require to verify that it is reasonable to rely on the winning bidder’s certification about the reasonably expected initial public offering price, including that the issue price of the Bonds set forth in the certificate did not exceed their fair market value as of the sale date. The “public” does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters and wholesalers. The initial offering prices to be certified shall be furnished to the City within 24 hours after the award of the Bonds.

FORM OF BID AND GOOD FAITH DEPOSIT: The prescribed form of bid for the Bonds will be available on the PARITY system and all bids must be submitted on that form. The winning bidder shall deliver a good faith deposit in the amount of \$604,400.00 (the “*Deposit*”), in the form of either of the following: (i) a certified or cashier’s check payable to the City or (ii) a wire transfer to the City, delivered to the City within 24 hours of notification of the award. Such bidder shall be solely responsible for the timely delivery of their Deposit whether by check or wire transfer. Neither the City nor the Financial Advisor has any liability for delays in the transmission of the Deposit.

The Deposit made by certified or cashier’s check should be made payable to the City and delivered to City of Mesa, Attn: Controller, 20 East Main Street, Suite 300, Mesa, Arizona 85201.

The Deposit sent via wire transfer should be sent to the City according to the following instructions:

JP Morgan Chase, ABA Number 021000021; Account number 90002519; For Further Credit to: Branch 902711, Reference: Name of Bidder – Utility Systems Revenue Bonds, Series 2015.

Contemporaneously with such wire transfer, the bidder shall send an e-mail to the City Chief Financial Officer (e-mail address: michael.kennington@mesaaz.gov), to the Finance Director (e-mail address irma.ashworth@mesaaz.gov) and to the Financial Advisor (e-mail addresses: larry.given@wedbush.com and julie.bice@wedbush.com, including the following information; (i) indication that a wire transfer has been made, (ii) the amount of the wire transfer, (iii) the issue to which it applies, and (iv) federal reference number, if available.

The Deposit received from the winning bidder, the amount of which will be deducted at settlement, will be deposited by the City and no interest will accrue to the winning bidder. In the event the winning bidder fails to comply with the accepted bid, said amount will be retained by the City as liquidated damages.

CUSIP NUMBERS: CUSIP numbers will be placed on the Bonds, but neither failure to place such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the winning bidder thereof to accept delivery of and pay for the Bonds in accordance with the terms of the sale. No CUSIP number will be deemed to be part of any Bond or of the contract evidenced thereby. All expenses of printing CUSIP numbers on the Bonds will be paid by the City, but the CUSIP Service Bureau charge for the assignment of CUSIP numbers will be paid by the winning bidder of the Bonds.

RIGHT OF REJECTION: The City reserves the right in its discretion to reject any and all bids received and to waive any irregularity or informality in the bids, except that the time for receiving bids shall be of the essence.

COST OF BOND FORMS: The City shall bear the cost of printing of the Bonds and will furnish fully executed Bonds, registered in the name of the winning bidder or nominees, to the winning bidder upon payment therefor.

AWARD AND DELIVERY: Unless all bids are rejected, the Bonds will be awarded to the bidder who complies with the provisions of this Notice and whose bid results in the lowest net interest cost to the City. The net interest cost will be determined by computing the aggregate amount of interest payable on the Bonds from their date to their respective maturity dates and by deducting therefrom any premium. Delivery of the Bonds will be made to the winning bidder upon payment in federal or immediately available funds at the offices of Bond Counsel, or, at the winning bidder's request and expense, at any other place mutually agreeable to both the City and the winning bidder.

CANCELLATION: Bidders are to take notice that, pursuant to Arizona law, if, within three (3) years from the award of the contract to purchase the Bonds, any person who was significantly involved in initiating, negotiating, securing, drafting or creating the contract for the purchase of the Bonds on behalf of the City becomes an employee or agent of the winning bidder in any capacity or a consultant to the winning bidder with respect to the contract for the purchase of the Bonds, the City may cancel the contract without penalty or further obligation by the City. In addition to such cancellation, the City may recoup any fees or commissions paid or due to any person who was significantly involved in initiating, negotiating, securing, drafting or creating the contract for the purchase of the Bonds on behalf of the City.

LEGAL OPINION: The Bonds are sold with the understanding that the City will furnish the winning bidder with the approving opinion of Gust Rosenfeld P.L.C., serving as Bond Counsel. An undated copy of such opinion can be found in the preliminary official statement (the "*Preliminary Official Statement*"). Said attorneys have been retained by the City as Bond Counsel and in such capacity are to render their opinion only upon the legality of the Bonds under Arizona law and on the exemption of the interest income on such Bonds from federal and State of Arizona income taxes (see "Tax-Exempt Status" below). Fees of Bond Counsel for services rendered in connection with such approving opinion are expected to be paid from Bond proceeds. Except to the extent necessary to issue its approving opinion as to validity of the Bonds, Bond Counsel has not been requested to examine or review and has not examined or reviewed any financial documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Bonds and accordingly will not express any opinion with respect to the accuracy or completeness of any such financial documents, statements or materials. In submitting a bid for the Bonds, the bidder agrees to the representation of the City by Bond Counsel.

TAX-EXEMPT STATUS: 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, interest income on the Bonds is excluded from gross income for purposes of calculating federal income taxes. In the opinion of Bond Counsel, interest income on the Bonds is exempt from Arizona income taxes.

Should changes in the law cause Bond Counsel's opinion to change prior to delivery of the Bonds to the winning bidder, the winning bidder will not be obligated to pick up and pay for the Bonds, and the winning bidder's Deposit will be returned.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The Bonds will not be "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*").

PRELIMINARY OFFICIAL STATEMENT DEEMED FINAL, DELIVERY OF FINAL OFFICIAL STATEMENT: The City, acting through its Chief Financial Officer, will deem the Preliminary Official Statement provided in connection with the sale of the Bonds to be final as of its date as required by Section 240.15c2-12, General Rules and Regulations, Securities Exchange Commission Act of 1934 (the "*Rule*"), except for the omission of offering prices, selling compensation, delivery dates, terms to be specified in the winning bidder's bid, ratings, other terms depending on such matters and the identity of the winning bidder, all as may be necessary for the City to complete a final official statement.

Within twenty-four (24) hours after the award of the Bonds, the winning bidder must provide the City with all necessary offering price information, selling compensation information, all other terms of the sale which depend on such matters and any underwriter information, all as may be necessary for the City to complete the final official statement.

Within seven (7) business days after the award of the Bonds, the City will provide the winning bidder with the final official statement in an electronic format as prescribed by the MSRB at no cost. The final

official statement will be in substantially the same form as the Preliminary Official Statement with such additions, deletions or revisions as the City deems necessary.

The City will deliver at closing an executed certificate stating that as of the date of delivery the information contained in the final official statement, including any supplement, relating to the City and the Bonds is true and correct in all material respects and that such final official statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE: In connection with the issuance of the Bonds, the City will deliver a continuing disclosure certificate for purposes of the Rule as hereinafter described and as described in the final official statement. For purposes of the Rule, the City is the only “obligated person” with respect to the Bonds. The City will agree, as described in the final official statement, to provide or cause to be provided (i) certain annual financial information and operating data (the “*Annual Information*”) for the preceding fiscal year, (ii) the City’s audited financial statements, (iii) timely notice, not in excess of ten (10) business days after the occurrence of certain listed events with respect to the Bonds, and (iv) timely notice of any failure by the City to provide its Annual Information within the time specified in that certificate. See the more complete description of the certificate in the final official statement. The City has established procedures to ensure timely and proper filing of its Annual Information.

NO LITIGATION AND NON-ARBITRAGE: The City will deliver a certificate to the effect, except as otherwise described in the Preliminary Official Statement or the final official statement, that no litigation is pending affecting the issuance and sale of the Bonds. The City will also deliver an arbitrage certificate covering its reasonable expectations concerning the Bonds.

ADDITIONAL INFORMATION: Copies of this Notice and the Preliminary Official Statement relating to the Bonds will be furnished to any bidder upon request made to the Clerk of the City of Mesa, Arizona; or to Wedbush Securities Inc., 3200 E. Camelback Road, Suite 290, Phoenix, Arizona 85018, telephone 602.952.6851, Financial Advisor to the City with respect to the Bonds.

CITY OF MESA, ARIZONA

OFFICIAL STATEMENT
\$30,220,000
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS, SERIES 2015

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 \$30,220,000 Utility Systems Revenue Bonds, Series 2015 (the “Bonds”), identified on the cover page hereof. Certain information concerning the authorization, purpose, terms, conditions of sale, security for and sources of payment of the Bonds is set forth in this Official Statement.

Initially, the Bonds will be administered under a book-entry-only system (the “Book-Entry-Only System”) by The Depository Trust Company, a registered securities depository (“DTC”). Unless and until the Book-Entry-Only System is discontinued, the Bonds will be registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in the Bonds will be offered for sale in integral multiples of \$5,000, and payments of principal of and interest on the Bonds will be made to DTC and, in turn, through participants in the DTC system. See APPENDIX F – “Book-Entry-Only System.”

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts by the City from the System (as defined below), taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position, results of operations, or other affairs of the City. No representation is made that past experience, as shown by such financial or other information, will necessarily continue or be repeated in the future.

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

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

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

THE BONDS

Authorization and Purpose

The Bonds will be issued pursuant to A.R.S. Title 9, Chapter 5, Article 3, as amended; approval given the qualified electors of the City elections held on March 29, 1994, November 2, 2010 and November 4, 2014; Resolution No. 6362 adopted by the Mayor and Council of the City on July 29, 1991 (the “1991 Master Resolution”); Resolution No. 7960 that amended the 1991 Master Resolution, twenty-nine supplemental resolutions adopted by the Mayor and Council of the City (excluding Resolution No. 10183 adopted by the Mayor and Council of the City on January 28, 2013 and Resolution No. 10200 adopted by the Mayor and Council of the City on March 18, 2013, amending Resolution No. 10183 (together, the “Twenty-Sixth Supplemental Resolution”), both of which were repealed on September 22, 2014 by the twenty-ninth supplemental resolution (the “Twenty-Ninth Supplemental Resolution”)) pertaining to the issuance of outstanding bonds secured by the Net Revenues of the System (each as defined herein); and the Thirtieth Supplemental Resolution to be adopted by the Council of the City on May 14, 2015 (the “Thirtieth Supplemental Resolution”), authorizing the issuance of the Bonds. The 1991 Master Resolution together with all resolutions amending and supplementing the 1991 Master Resolution (excluding the Twenty-Sixth Supplemental Resolution) are hereafter collectively referred to as the “Master Resolution.”

The Bonds will be issued as Parity Bonds (as hereafter defined) pursuant to the provisions of the Master Resolution. (See “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS” and APPENDIX E – “Summary of the

Master Resolution, as Amended,” herein.) The Bonds are being issued to provide funds to (i) make improvements to the System and (ii) pay the costs related to the issuance of the Bonds.

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

Projects to be Funded	Estimated Cost
Natural Gas System Improvements	\$ 3,615,000
Water System Improvements	20,580,000
Electric System Improvements	2,310,000
Solid Waste System Improvements	3,715,000
Total	<u>\$30,220,000</u>

In addition to the Bonds, the City expects to issue \$13,690,000 of General Obligation Bonds, Series 2015, concurrently with the Bonds, but pursuant to a separate official statement.

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

General Provisions

The Bonds will be dated the date of initial delivery, and will bear interest from such date payable on January 1, 2016 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 amounts of \$5,000 of principal due on a specific maturity date and any integral multiples thereof, and will initially be registered in the name of Cede & Co., as nominee of DTC. For a description of registration and transfer of the Bonds through the facilities of DTC, see APPENDIX F – “Book-Entry-Only System.”

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THE OFFICIAL STATEMENT, EXCEPT THOSE UNDER THE HEADINGS “TAX EXEMPTION,” “BOND PREMIUM,” AND “ORIGINAL 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 (the “Bond Register”) on the 15th day of the month preceding each such Interest Payment Date (the “Record Date”). Principal of the Bonds will then be payable at maturity or upon redemption prior to maturity upon presentation and surrender on the Bonds to the designated corporate trust office of the Paying Agent. Additionally, if the Book-Entry-Only System is discontinued, payment of interest may also be made by wire transfer upon twenty (20) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any owner of at least \$1,000,000 aggregate principal amount of the Bonds. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each.

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

Redemption Provisions

Optional Redemption

Bonds maturing on or before July 1, 2025 are not subject to call for redemption prior to maturity. Bonds maturing on or after July 1, 2026 are subject to call for redemption prior to maturity, at the option of the City, in whole or in part, on July 1, 2025, or on any date thereafter by the payment of a redemption price equal to the principal amount of each Bond called for redemption plus accrued interest to the date fixed for redemption, but without premium.

Notice of Redemption

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

If moneys 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 moneys being so held on or prior to the date set for redemption and if not so held by such date the redemption shall be cancelled and be of no force and effect. The notice of redemption shall describe the conditional nature of the redemption.

Effect of Call for Redemption

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

Redemption of Less Than All of a Bond

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

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are special obligations of the City payable as to both principal and interest solely from the revenues derived by the City from the ownership, use and operation of its water, electrical, natural gas, wastewater and solid waste systems (collectively, the "System"), after provision has been made for the payment from such revenues of the reasonable and necessary expenses of operation, maintenance and repair of the System, excluding depreciation and debt service (the "Net Revenues"), and on a parity of lien on such Net Revenues with the City's outstanding Systems Revenue Bonds and Utility Systems Revenue Refunding Bonds previously and presently outstanding in the aggregate principal amount of \$1,001,339,351 (collectively, with the Bonds, the "Parity Bonds"). See "Schedule of Combined Annual Utility Systems Revenue Bond Estimated Debt Service Requirements and Debt Service Coverage," APPENDIX C – "City of Mesa, Arizona – Utility Systems Information" and APPENDIX E – "Summary of the Master Resolution."

The Bonds do not constitute an indebtedness or pledge of the general credit of the City within the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness, and the owners of the

Bonds shall never have the right to compel any exercise of the taxing power of the City or to demand payment of the Bonds or interest thereon out of any funds other than from the Net Revenues.

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

Rate Covenant

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

Reserve Fund

The Master 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 one hundred seventy-five percent (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 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 Master Resolution and will be issued in compliance with the requirements of the Master Resolution set forth in the succeeding paragraph for the issuance of additional Parity Bonds ("Additional Parity Bonds").

Additional Parity Bonds may be issued on a parity with the Bonds only if the Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Additional Parity Bonds have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all Parity Bonds to be outstanding immediately after issuance of such Additional Parity Bonds and said Net Revenues must also be sufficient to provide an amount of Net Revenues for the then current Fiscal Year which, net of depreciation and the aggregate amounts required to be deposited to the Bond Fund during such Fiscal Year, will be sufficient to provide at least one hundred percent (100%) of the City's Policy Costs due and owing in such Fiscal Year as shown by a certificate signed by the City's Chief Financial Officer. For the purposes of this computation, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) if all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing water, wastewater, natural gas, electrical or solid waste (garbage and

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

The City expects to issue Additional Parity Bonds in the future pursuant to existing and future voted bond authorizations and pursuant to additional and supplemental resolutions.

After issuance of the Bonds, the City will be authorized to issue \$621,993,190 of Parity Bonds, pursuant to voter approval given at special bond elections held on March 29, 1994, November 2, 2010 and November 4, 2014. 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 2010 Bond Authorization	Remaining 2014 Bond Authorization	Remaining System Revenue Bonds Authorized But Unissued*
Gas System Improvements	\$ 0	\$ 11,505,000	\$ 59,100,000	\$ 70,605,000
Water System Improvements	0	0	304,785,402	304,785,402
Wastewater System Improvements	0	36,822,788	178,200,000	215,022,788
Electric System Improvements	0	1,010,000	27,000,000	28,010,000
Solid Waste System Improvements	3,570,000	0	0	3,570,000
Total	<u>\$ 3,570,000</u>	<u>\$ 49,337,788</u>	<u>\$ 569,085,402</u>	<u>\$ 621,993,190</u>

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

Subordinate Lien Obligations

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

COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE

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

	2013/14	2012/13	Audited 2011/12	2010/11	2009/10
System Revenues:*					
Electric System	\$ 31,319,312	\$ 31,329,590	\$ 34,893,745	\$ 33,439,877	\$ 33,296,661
Gas System	38,811,062	39,479,701	39,687,911	41,564,836	38,908,250
Water System	143,525,980	116,365,932	115,509,376	104,081,108	102,933,842
Wastewater System	73,660,582	68,102,896	65,004,181	60,170,089	57,886,967
Solid Waste System	47,715,558	47,465,809	47,672,855	47,743,120	46,746,901
Total System Revenues	<u>\$ 335,032,494</u>	<u>\$ 302,743,928</u>	<u>\$ 302,768,068</u>	<u>\$ 286,999,030</u>	<u>\$ 279,772,621</u>
System Expenses:*					
Electric System	\$ 22,115,042	\$ 22,653,360	\$ 22,474,739	\$ 22,141,338	\$ 21,851,913
Gas System	26,754,812	26,041,258	25,302,392	27,953,350	27,064,001
Water System	37,672,769	36,419,495	34,263,918	35,202,564	37,779,141
Wastewater System	20,778,787	20,489,961	22,916,754	19,481,237	21,151,463
Solid Waste System	31,338,103	28,836,756	26,652,787	26,534,703	25,963,715
Total System Expense	<u>\$ 138,659,513</u>	<u>\$ 134,440,830</u>	<u>\$ 131,610,590</u>	<u>\$ 131,313,192</u>	<u>\$ 133,810,233</u>
Net Income Available For Debt Service (Net Revenues)	<u>\$ 196,372,981</u>	<u>\$ 168,303,098</u>	<u>\$ 171,157,478</u>	<u>\$ 155,685,838</u>	<u>\$ 145,962,388</u>
Utility Systems Revenue Bond Debt Service Requirements	<u>\$ 67,337,000</u>	<u>\$ 68,041,686</u>	<u>\$ 64,830,323</u>	<u>\$ 55,398,585</u>	<u>\$ 50,854,631</u>
Approximate Debt Service Coverage Provided By Net Revenues	2.92x	2.47x	2.64x	2.81x	2.87x

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

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

Source: City of Mesa, Arizona Financial Services Department.

Historically, the City has annually transferred a portion of the Net Revenues to the City's general fund after providing for payment of the current debt service requirements of all Parity Bonds and utility systems – supported general obligation bonds. In Fiscal Year 2013/14, such transfer (less land sale proceeds) occurred in the amount of approximately \$90 million. The City expects to continue this practice in the future.

RISK FACTORS

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

Additional Bonds and Other Obligations of City. The City has the capacity to enter into other obligations which are payable from the Net Revenues of the System and which are on a parity with the Bonds. To the extent that Additional Parity Bonds or other obligations are issued or incurred by the City, the funds available to make the debt service payments on the Bonds may be decreased.

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

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

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

Impact of Electric Deregulation, Open Access and Reliability Standards. Deregulation of the electric utility industry may be revisited. See “Electrical Utility Industry Deregulation” in APPENDIX C – “City of Mesa, Arizona - Utility Systems Information.”

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

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

Natural Gas Transportation Agreements. Natural gas supplies secured by the City are transported via a major pipeline system owned and operated by the El Paso Natural Gas Company LLC, a Kinder Morgan Company (“EPNG”) under the terms and conditions of two transportation service agreements (“TSAs”). A 1996 settlement with EPNG provides some rate protection to the City under the TSAs from EPNG’s published Tariff rates. However, these protections are the subject of several Dockets pending before the Federal Energy Regulatory Commission. The results of these pending matters could impact the costs of service for the City’s gas utility operations.

Pending Litigation Involving the Water and Wastewater Utility Operations. The City is a claimant in the pending Arizona General Stream Adjudication (the “Adjudication”), a decades-long judicial proceeding to determine the extent and priority of water rights in the Gila and Little Colorado River systems. The City has participated as a party in the settlement of the claims of a number of Native American Communities, including the Gila River Indian

Community, the White Mountain Apache Tribe, and the Salt River Pima-Maricopa Indian Community (which borders the City on the north). Although a number of significant claims have been resolved through these settlements, other claims of non-Indian parties, including the City, remain outstanding, and the future results of the Adjudication could impact City water utility operations.

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

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

Other Considerations. The Audited General Purpose Financial Statements of the City included in APPENDIX D hereto are for the fiscal year ended June 30, 2014 and may not reflect the current financial positions of the City. Such financial statements are the most recent audited financial statements for the City.

SOURCES AND USES OF FUNDS

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

Sources of Funds:

The Bonds	\$30,220,000.00
Net Original Issue Premium	
Total Sources of Funds	<u>\$</u>

Uses of Funds:

Deposit to Construction Fund	
and Costs of Issuance*	
Deposit to Bond Fund	
Total Uses of Funds	<u>\$</u>

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

ESTIMATED 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 estimated annual debt service requirements of the Bonds, (iii) the estimated total annual utility systems revenue bond debt service requirements following issuance of the Bonds and (iv) the estimated debt service coverage ratio provided for such estimated total annual debt service requirements based upon the City's fiscal year 2013/14 Net Revenues (\$196,372,981).

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

Fiscal Year	Utility Systems Revenue Bonds Outstanding		Series 2015 Utility Systems Revenue Bonds		Estimated Combined Annual Debt Service Requirements	Estimated Debt Service Coverage Provided By Net Revenues (c)
	Principal	Interest (a)	Principal	Estimated Interest (b)		
2014/15	\$ 21,988,389	\$ 45,711,429			\$ 67,699,818	2.90x
2015/16	24,931,189	45,537,095		\$ 1,657,903	72,126,187	
2016/17	26,204,052	44,327,749		1,511,000	72,042,801	
2017/18	32,491,981	43,138,406		1,511,000	77,141,387	
2018/19	35,674,976	41,577,965		1,511,000	78,763,942	2.49x
2019/20	30,953,040	39,811,951	\$ 1,000,000	1,511,000	73,275,991	
2020/21	32,411,173	38,356,126	1,050,000	1,461,000	73,278,299	
2021/22	33,954,378	36,809,901	1,100,000	1,408,500	73,272,780	
2022/23	35,602,657	35,162,973	1,150,000	1,353,500	73,269,129	
2023/24	37,371,010	33,391,975	1,200,000	1,296,000	73,258,985	
2024/25	39,264,440	31,498,317	1,275,000	1,236,000	73,273,757	
2025/26	41,022,949	29,740,095	1,325,000	1,172,250	73,260,294	
2026/27	42,781,538	27,979,006	1,400,000	1,106,000	73,266,545	
2027/28	44,560,210	26,201,882	1,450,000	1,036,000	73,248,092	
2028/29	46,322,367	24,440,220	1,525,000	963,500	73,251,087	
2029/30	48,065,000	22,698,868	1,600,000	887,250	73,251,118	
2030/31	49,985,000	20,782,931	1,700,000	807,250	73,275,181	
2031/32	52,195,000	18,573,851	1,775,000	722,250	73,266,101	
2032/33	54,770,000	15,996,430	1,875,000	633,500	73,274,930	
2033/34	58,175,000	12,591,363	1,950,000	539,750	73,256,113	
2034/35	61,640,000	9,124,691	2,050,000	442,250	73,256,941	
2035/36	67,300,000	6,039,000	-	339,750	73,678,750	
2036/37	67,290,000	3,347,000	2,150,000	339,750	73,126,750	
2037/38	16,385,000	655,400	2,270,000	232,250	19,542,650	
2038/39			2,375,000	118,750	2,493,750	
	<u>\$ 1,001,339,351</u>		<u>\$ 30,220,000</u>			

- (a) Interest on the City's Taxable Utility Systems Revenue Bonds, Series 2009 (Build America Bonds – Direct Pay) and the City's Taxable Utility Systems Revenue Bonds, Series 2010 (Build America Bonds – Direct Pay) is without reduction of the federal subsidy payments. See footnote (k) on page B-3 herein.
- (b) Interest on the Bonds is estimated at an average interest rate of 5.00%.
- (c) Debt Service Coverage is computed using the Net Revenues of \$196,372,981 for Fiscal Year 2013/14. See "COMBINED SCHEDULES OF NET REVENUES AND DEBT SERVICE COVERAGE" herein. The Fiscal Year 2013/14 Net Revenues provide coverage for the total estimated annual debt service requirements in Fiscal Year 2014/15 of approximately 2.90x and approximately 2.49x the total estimated annual debt service requirements for Fiscal Year 2018/19, the Maximum Annual Debt Service payable on all Parity Bonds to be outstanding immediately after issuance of the Bonds.

RATINGS

Moody's Investor Service ("Moody's") and Standard & Poor's Financial Services LLC ("S&P") have assigned credit ratings of "Aa2" and "AA-", respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007 and from S&P at 55 Water Street, New York, New York 10041. Such ratings may subsequently be revised downward or withdrawn entirely by Moody's or S&P, if, in their respective judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The City will covenant in its continuing disclosure certificate (see "Continuing Secondary Market Disclosure" below) that it will cause notices to be filed with the MSRB of any formal change in the ratings relating to the Bonds.

LEGAL MATTERS

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

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

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

TAX EXEMPTION

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

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various restrictions, conditions and requirements relating to the continued exclusion of interest income on the Bonds from gross income for federal income tax purposes, including a requirement that the City rebate to the federal government certain of its investment earnings with respect to the Bonds. The City has covenanted to comply with the provisions of the Code relating to such matters. Failure to comply with such restrictions, conditions, and requirements could result in the interest income on the Bonds being included in gross income for federal income tax purposes, under certain circumstances, from the date of issuance. The Bonds do not provide for an adjustment in interest rate or yield in the event of taxability and an event of taxability does not cause an acceleration of the principal on the Bonds. The opinion of Bond Counsel assumes continuing compliance with such covenants.

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

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

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

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

Currently and from time to time, there are legislative proposals in Congress which, if enacted could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. Any such change that occurs before initial delivery of the Bonds could cause Bond Counsel to deliver an opinion substantially different from the opinion shown in APPENDIX G. The extent of change in Bond Counsel's opinion cannot be determined at this time. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

BOND PREMIUM

The initial public offering prices of the Bonds maturing on July 1, 20__ through and including July 1, 20__ (collectively, the "Premium Bonds") are greater than the amounts payable on such Premium Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial Beneficial Owner of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial Beneficial Owner must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial Beneficial Owner is determined by using such Beneficial Owner's yield to maturity. Beneficial Owners of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

ORIGINAL ISSUE DISCOUNT

The initial offering prices of the Bonds maturing on July 1, 20__ through and including July 1, 20__ (collectively, the "Discount Bonds"), are less than the respective amounts payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price (the "Issue Price") of the Discount Bonds, and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." With respect to a Beneficial Owner who purchases a Discount Bond in the initial public offering at the Issue Price and who holds the Discount Bond to maturity, the full amount of original issue discount will constitute interest income which is not includible in the gross income of the Beneficial Owner of the Discount Bond for federal income tax purposes and Arizona income tax purposes and that Beneficial Owner will not, under present federal income tax law and present Arizona income tax law, realize a taxable capital gain upon payment of the Discount Bond at maturity.

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

The amount of original issue discount accreting each period will be added to the Beneficial Owner's tax basis for the Discount Bond. The adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bond. An initial Beneficial Owner of a Discount Bond who disposes of the Discount Bond prior to

maturity should consult his or her tax advisor as to the amount of the original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or disposition of the Discount Bond prior to maturity.

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

A portion of the original issue discount that accretes in each year to a Beneficial Owner of a Discount Bond may result in certain collateral federal income tax consequences as described in "TAX EXEMPTION" herein.

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

LITIGATION

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

ADDITIONAL INFORMATION

The City deems this Preliminary Official Statement provided in connection with the sale of the Bonds to be final as of its date except for the omission of interest rates, offering prices, delivery dates, terms to be specified in the winning proposal, ratings, other terms dependent on such matters and the identity of the winning bidder (the "Underwriter").

The Underwriter must provide the City, within twenty-four (24) hours after the award of the Bonds, with all necessary offering price information, selling compensation information, all other terms of the sale which are dependent on such matters and any underwriter information, all as may be necessary to complete the final Official Statement.

Promptly after receiving the necessary information from the Underwriter, the City will prepare a final Official Statement in substantially the same form as the Preliminary Official Statement with such additions, deletions or revisions as the City deems necessary.

The Underwriter agrees that it will provide copies of the final Official Statement to all potential customers and to the MSRB in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule").

The City will provide the Underwriter with the final Official Statement in an electronic format prescribed by the MSRB within seven (7) business days of the award of the Bonds without cost to the Underwriter. Additional copies of the final Official Statement may be obtained from the City at the expense of the Underwriter.

Additional information and copies of the Official Statement and the Master Resolution may be obtained from the office of the Chief Financial Officer, 20 East Main Street, Suite 700, Mesa, Arizona 85201.

CERTIFICATION CONCERNING OFFICIAL STATEMENT

The closing documents will include a certificate confirming that, to the best knowledge, information and belief of the City's Chief Financial Officer, the descriptions and statements contained in this Official Statement are at the time of issuance of the Bonds, true, correct and complete in all material respects and do not contain an untrue statement of a material fact, or omit to state a material fact required to be stated therein in order to make the

statements, in light of the circumstances under which they are made, not misleading. In the event this Official Statement is supplemented or amended, the foregoing confirmation will also encompass such supplements or amendments.

CONTINUING SECONDARY MARKET DISCLOSURE

The City will covenant for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than February 1 in each year commencing February 1, 2016 (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notices”), as set forth in APPENDIX F – “Form of Continuing Disclosure Certificate” (the “Continuing Disclosure Certificate”). The Annual Reports and Notices and any other documentation or information required to be filed by such covenants will be filed by the City with the MSRB, in a format prescribed by the MSRB. Currently the MSRB requires filing through the MSRB’s EMMA system as described in APPENDIX F – “Form of Continuing Disclosure Certificate.”

These covenants will be made in order to assist the Underwriter in complying with the Securities Exchange and Commission Rule 15c2-12 (the “Rule”). The form of the undertaking necessary pursuant to the Rule is included as APPENDIX F hereto. A failure by the City to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. The City’s undertaking to comply with such covenants is payable solely from Net Revenues of the System. Until payment of the Bonds, no receipts segregated or collected for the purpose of paying the principal of and interest and redemption charges on bonds and other lawful long-term obligations issued or incurred for a specific capital purpose shall be subject to the provisions of A.R.S. Title 42, Chapter 17, the State budget law. Absence of continuing disclosure could adversely affect the Bonds and specifically their market price and transferability.

With the exception of the instances noted below, the City has complied with all of its existing continuing disclosure undertakings over the last five years in all material respects. The City’s Finance Department has instituted processes to ensure timely and proper filing of its Annual Reports for all of the City’s outstanding bonds.

The Annual Report, which was due on February 1, 2013, was filed on February 12, 2013. In addition, the City did not file its notice of failure to timely file such Annual Report until June 2, 2014. Inadvertently, the filing on February 12, 2013 did not relate to all of the CUSIP numbers for bonds issued in 2010, 2011 and 2012; this error was corrected on February 27, 2013. In reference to the City’s Highway Project Advancement Notes, the Annual Report which was due on February 1, 2010, was filed on September 10, 2014. In reference to the Phoenix-Mesa Gateway Airport Authority Special Facility Revenue Bonds (Mesa Project), Series 2012, the City’s Annual Report was due on February 1, 2013, but was not filed until February 12, 2014.

The City implemented new accounting software during fiscal year 2013, which caused delays in preparing the Annual Report for the fiscal year ended June 30, 2013. As a result, the Annual Report due on February 1, 2014 was filed on May 12, 2014. The new software has now been fully implemented.

The City inadvertently failed to present certain information in the Annual Reports in the same format and detail as originally presented in the applicable Official Statements. This general information was contained in the Annual Report. For example, schedules of net revenues and debt service coverage for fiscal years ended June 30, 2009 through June 30, 2013 should have been presented on a modified accrual basis as part of the Annual Report related to the City’s Utility Systems Revenue Bonds. The schedules of net revenues and debt service coverage were subsequently prepared and filed on March 24, 2014. Other schedules correcting these failures for the past five years were subsequently prepared and filed on or before September 10, 2014.

In reference to the City’s General Obligation Bonds, Utility Systems Revenue Bonds, Street and Highway User Revenue Bonds, and Excise Tax Revenue Obligations, the City did not timely file certain bond insurance rating changes, but the City has filed such notices on or before September 22, 2014.

FINANCIAL ADVISOR

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

GENERAL PURPOSE FINANCIAL STATEMENTS

The Audited General Purpose Financial Statements of the City for the year ended June 30, 2014, a copy of which is included in APPENDIX D of this Official Statement, have been audited by CliftonLarsonAllen LLP, certified public accountants, to the extent and for the period indicated in their report thereon. The City is not aware of any facts that would make such Audited General Purpose Financial Statements misleading. The Audited General Purpose Financial Statements are for the fiscal year ending June 30, 2014 and are not current. The City neither requested nor obtained the consent of CliftonLarsonAllen LLP to include the report, and CliftonLarsonAllen LLP has performed no procedures subsequent to rendering its opinion on the financial statements.

CONCLUDING STATEMENT

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

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

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

CITY OF MESA, ARIZONA

By: _____
Chief Financial Officer

**CITY OF MESA, ARIZONA
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION**

General

The City is the third largest city in the State and the 38th largest city in the United States. Founded in 1878 and incorporated in 1883, the City has an estimated population of 455,567. The following table illustrates the City's population statistics since 1990, along with the population statistics for the County and the State, respectively.

POPULATION STATISTICS

Year	City of Mesa	Maricopa County	State of Arizona
2014 Estimate (a)	455,567	4,008,651	6,667,241
2010 Census	439,041	3,817,117	6,392,017
2000 Census	396,375	3,072,149	5,130,632
1990 Census	288,091	2,122,101	3,665,305

(a) Source: U.S. Census Bureau. Estimate as of July 1, 2014 (Published December 15, 2014).

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

**SQUARE MILE STATISTICS
City of Mesa, Arizona**

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

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

Municipal Government and Organization

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

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

City Administrative Staff

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

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

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

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

Economy

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

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

UNEMPLOYMENT AVERAGES

<u>Year</u>	<u>United States</u>	<u>State of Arizona(a)</u>	<u>Maricopa County(a)</u>	<u>City of Mesa(a)</u>
2014(b)	5.8%	6.8%	5.8%	5.6%
2013	7.4	8.0	6.7	6.6
2012	8.1	8.3	7.2	7.1
2011	8.9	9.4	8.5	8.3
2010	9.6	10.4	9.6	8.8
2009	9.3	9.8	9.0	8.3

- (a) This table includes restated data: In 2012 various Local Area Unemployment Statistics ("LAUS") program data was revised between the years 2007 through 2011 to incorporate new population controls, updated inputs, reestimation of models, and adjustment to new census division and national control totals.
- (b) Data is not seasonally adjusted, is preliminary and is an average through November 2014 for LAUS data and through November 2014 for the National Unemployment Rate.

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

<u>Employer</u>	<u>Description</u>	<u>Approximate Employment</u>
Banner Health System	Hospital Network	9,573
Mesa Public Schools	Public Education	8,770
The Boeing Company	Helicopter Manufacturing and Assembly	4,700
City of Mesa	Government	3,519
Maricopa County Government	Government	2,644
Wal-Mart	Retail	2,533
Mesa Community College	Education	1,951
The Kroger Company (Fry's)	Grocery Store	1,210
Gilbert Unified Schools	Public Education	1,087
Aviall Inc.	Aviation Parts	842
Home Depot	Retail	837

Sources: City of Mesa – Office of Economic Development, Phoenix Business Journal, Reference USA, MAG Employer Database, updated December 2014.

Phoenix-Mesa Gateway Airport and the Airport/Campus District

Phoenix-Mesa Gateway Airport (formerly known as Williams Gateway Airport) has three runways (10,401 feet, 10,201 feet, and 9,301 feet) and a newly expanded and remodeled passenger terminal. Phoenix-Mesa Gateway Airport is a small-hub commercial airport serving the Phoenix-Mesa metropolitan area with direct service to over 30 cities currently provided by Allegiant Air.

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

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

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

State Route 24, a one-mile freeway segment extending access from the existing State Route 202 freeway eastward, was completed May 2014. This freeway segment lies immediately north of Phoenix-Mesa Gateway Airport, and will provide freeway access to the east side of the airport property. Such access will be beneficial for the economic development of properties located on, and adjacent to, Phoenix-Mesa Gateway Airport, as well as future terminal development on the east side.

Construction

The following tables set forth annual records of building permit values and new housing permits issued within the City for the period 2009-2014.

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

<u>Year (a)</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
2014/15 (b)	\$291,898	310,527	-	20,434	\$622,860
2013/14	395,286	382,959	-	11,872	790,118
2012/13	334,138	308,994	-	5,266	706,865
2012	243,762	331,860	-	2,546	578,168
2011	169,238	293,054	-	35,323	497,615
2010	153,146	26,125	\$2,697	44,181	226,149
2009	162,040	63,988	6,550	35,306	267,884

(a) Data from 2009 through 2012 is for calendar years. Data for 2012/13 through 2014/15 is for fiscal years.

(b) Partial fiscal year data through March 25, 2015.

Source: The City and Arizona State University Realty Studies. 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

<u>Year (a)</u>	<u>Total New Housing Units</u>
2014/15 (b)	790
2013/14	1,073
2012/13	957
2012	739
2011	1,447
2010	782

(a) Data from 2010 through 2012 is for calendar years. Data for 2012/13 through 2014/15 is for fiscal years.

(b) Partial fiscal year data through March 25, 2015.

Source: The City and Arizona State University Realty Studies. The date on which the permit is issued is not to be construed as the date of construction.

Retail

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

**TAXABLE
RETAIL SALES**
City of Mesa, Arizona

<u>Year</u>	<u>Retail Sales</u>
2014	\$3,944,036,123
2013	3,771,601,899
2012	3,557,501,931
2011	3,458,279,940
2010	3,662,333,085

Source: The City.

Agriculture

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

Tourism

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

There are more than 60 hotels in the City, with all of the major hotel brands represented. The table below contains a listing of certain hotels located within the City.

HOTELS City of Mesa, Arizona

<u>Hotel Name</u>	<u>Number of Sleeping Rooms</u>
Phoenix Marriott Mesa	275
Hilton Phoenix East-Mesa	260
Holiday Inn Mesa	246
Dobson Ranch Inn & Suites	212
Arizona Golf Resort	187
Hyatt Place Phoenix-Mesa	152
Marriott Courtyard	149
Best Western Mezona Inn	128
Country Inn and Suites	126
La Quinta (West)	125
Days Hotel Mesa-Gilbert	120
Quality Inn/Suites	119

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 operates and maintains 58 parks, including 11 sports complexes and 133 basins covering more than 2,000 acres. In addition, the City manages 9 aquatic facilities, 2 professional baseball stadiums and a par 72, 18 hole championship golf course.

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

**CITY OF MESA, ARIZONA
FINANCIAL DATA**

Current Year Statistics (For Fiscal Year 2014/15)**City of Mesa, Arizona**

Total General Obligation Bonds to Be Outstanding	\$ 358,335,000	(a)
Total Utility Systems Revenue Bonds to Be Outstanding	1,031,559,351	(b)
Total Street and Highway User Revenue Bonds Outstanding	106,590,000	(c)
Total Excise Tax Obligations Outstanding	190,695,000	(d)
Primary Assessed Valuation	\$2,660,122,572	(e)
Secondary Assessed Valuation	2,821,172,754	(e)
Estimated Full Cash Value	23,856,664,882	(f)

Estimated Net Assessed Values (For Fiscal Year 2015/16) (g)

Primary Assessed Valuation	\$2,757,912,916
Secondary Assessed Valuation	3,365,774,093

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- (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 following issuance of the Bonds. See “Statements of Bonds Outstanding – Utility Systems Revenue Bonds to Be Outstanding” in this appendix.
- (c) Represents all street and highway user revenue bonds outstanding. See “Statements of Bonds Outstanding – Street and Highway User Revenue Bonds Outstanding” in this appendix.
- (d) Represents all excise tax obligations of the City outstanding. See “Statements of Bonds Outstanding – Excise Tax Obligations Outstanding” in this appendix.
- (e) Arizona legislation divides property taxes into two categories, primary and secondary. Secondary property taxes are those taxes and assessments imposed to pay principal and interest on bonded indebtedness and certain other obligations, those imposed for special districts other than school districts and those imposed to exceed a budget, expenditure or tax limitation pursuant to voter approval. Primary property taxes are all ad valorem taxes other than secondary property taxes. Annual increases in the valuation of certain types of property for primary property tax purposes and the amount of primary property taxes which may be levied in any year are subject to certain limitations. Except for the Property Valuation Protection Option mentioned under “Property Taxes-Ad Valorem Taxes,” such limitations do not apply with respect to secondary property taxes. See “PROPERTY TAXES” for the method of determining property value and the recent constitutional amendment relating to the limitation of the amount of the increase in value of real property and improvements, including mobile homes, used for all ad valorem property tax purposes.
- (f) Total estimated full cash value is the total market value of the property less unsecured personal property and less estimated exempt property within the City, as projected by the Arizona Department of Revenue, Division of Property and Special Taxes.
- (g) Estimated valuations for Fiscal Year 2014/15 provided by the Arizona Department of Revenue. Valuations for Fiscal Year 2015/16 are not official until approved by the Board of Supervisors of the County on the third Monday in August for the following fiscal year. Although the final official valuations are not expected to differ materially from the estimated valuations, they are subject to positive or negative adjustments until approved by the Board of Supervisors of the County.

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

STATEMENTS OF BONDS OUTSTANDING

General Obligation Bonds to Be Outstanding City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Refunding	\$ 24,840,000	7-1-04/15	\$ 1,420,000
2004	Refunding	46,445,000	7-1-09/18	46,180,000
2005	Various Purpose	11,705,000	7-1-12/24	1,500,000
2006	Various Purpose	9,710,000	7-1-13/25	9,425,000
2007	Various Purpose	15,915,000	7-1-19/27	15,915,000
2008	Various Purpose	15,450,000	7-1-09/28	13,450,000
2009	Various Purpose	61,830,000	7-1-10/29	45,495,000
2010	Various Purpose	30,865,000	7-1-20/30	30,865,000 (h)
2011	Various Purpose	29,320,000	7-1-12/31	26,350,000
2012	Refunding	31,665,000	7-1-13/22	23,685,000
2012	Various Purpose	27,290,000	7-1-13/32	25,600,000
2013	Refunding	8,915,000	7-1-14/24	8,885,000
2013	Various Purpose	59,960,000	7-1-14/33	58,325,000
2014	Various Purpose	37,550,000	7-1-15/34	37,550,000
Total General Obligation Bonds Outstanding				\$ 344,645,000
Plus the Series 2015 General Obligation Bonds (i)				13,690,000
Total General Obligation Bonds to Be Outstanding				<u>\$ 358,335,000</u>

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- (h) These bonds were issued as taxable bonds under the Build America Bond program for which subsidy payments equal to 35% of the interest payments on such bonds are expected to be made by the federal government. Bonds issued under the Build America Bonds program have had such subsidy payments reduced by 7.2% for the federal fiscal year 2013/14, and by 7.3% in federal fiscal year 2014/15 due to sequestration reductions imposed by the federal government. Additional sequestration reductions or other reductions may be imposed by the federal government in future years. The City is required to pay the shortfall in the interest payments caused by the reduction.
- (i) The City expects to issue \$13,690,000 General Obligation Bonds, Series 2015 (the "Series 2015 General Obligation Bonds") by a separate official statement.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Utility Improvement	\$ 57,950,000	7-1-09/21	\$ 2,000,000
2002	Refunding	129,000,000	7-1-04/17	22,310,000
2002A	Refunding	48,850,000	7-1-08/17	17,890,000
2003	Utility Improvement	50,470,000	7-1-10/22	4,000,000
2004	Refunding	40,345,000	7-1-14/19	40,325,000
2004	Utility Improvement	64,625,000	7-1-19/28	6,125,000
2005	Utility Improvement	91,200,000	7-1-19/29	13,500,000
2006	Utility Improvement	105,400,000	7-1-23/30	51,180,000
2006	Refunding	61,300,000	7-1-09/21	58,075,000
2006	Refunding	127,260,000	7-1-12/28	126,965,000
2007	Utility Improvement	65,550,000	7-1-23/31	65,550,000
2008	Refunding	21,125,000	7-1-09/18	8,275,000
2008	Utility Improvement	52,875,000	7-1-23/32	52,875,000
2009	Utility Improvement	59,900,000	7-1-23/33	59,900,000 (k)
2009	WIFA Loans	3,758,810	7-1-10/29	2,244,351
2010	Utility Improvement	50,380,000	7-1-34	50,380,000 (k)
2011	Utility Improvement	53,950,000	7-1-35	53,950,000
2012	Refunding	31,580,000	7-1-16,17,20,21	31,580,000
2012	Taxable Refunding	80,295,000	7-1-20/27	80,295,000
2012	Utility Improvement	67,300,000	7-1-36	67,300,000
2013	Utility Improvement	47,290,000	7-1-37	47,290,000
2014	Utility Improvement	36,385,000	7-1-37/38	36,385,000
2014	Utility Improvement	102,945,000	7-1-18/30	102,945,000
Total Utility Systems Revenue Bonds Outstanding				\$ 1,001,339,351
Plus the Bonds				30,220,000
Total Utility Systems Revenue Bonds to Be Outstanding				<u><u>\$ 1,031,559,351</u></u>

(j) Excludes \$43,385,000 principal amount of the City's Utility Systems Revenue Refunding Bonds, Series 2002, which were refunded by the City's Taxable Utility Systems Revenue Refunding Bonds, Series 2012. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

(k) These bonds were issued as taxable bonds under the Build America Bond program for which subsidy payments equal to 35% of the interest payments on such bonds are expected to be made by the federal government. Bonds issued under the Build America Bonds program have had such subsidy payments reduced by 7.2% for the federal fiscal year 2013/14, and by 7.3% in federal fiscal year 2014/15 due to sequestration reductions imposed by the federal government. Additional sequestration reductions or other reductions may be imposed by the federal government in future years. The City is required to pay the shortfall in the interest payments caused by the reduction.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2003	Street Improvements	\$26,805,000	7-1-10/22	\$ 2,255,000
2004	Refunding	17,760,000	7-1-14/18	17,640,000
2004	Street Improvements	9,585,000	7-1-10/23	1,075,000
2005	Refunding	23,800,000	7-1-07/23	23,750,000
2005	Street Improvements	10,225,000	7-1-10/24	1,075,000
2006	Street Improvements	11,675,000	7-1-23/25	1,825,000
2007	Street Improvements	10,675,000	7-1-23/27	3,000,000
2012	Refunding	36,090,000	7-1-14/22	29,915,000
2013	Refunding	8,500,000	7/1/2024	8,500,000
2014	Refunding	17,555,000	7-1-24/27	17,555,000
Total Street and Highway User Revenue Bonds Outstanding				<u><u>\$106,590,000</u></u>

- (l) Excludes \$8,500,000 principal amount of the City's Street and Highway User Revenue Bonds, Series 2005, which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2013. 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.

Also excludes \$18,670,000 principal amount of the City's Street and Highway User Revenue Bonds originally issued in 2003, 2004, 2005, 2006 and 2007, which were refunded by the City's Street and Highway User Revenue Refunding Bonds, Series 2015. Debt service requirements for such refunded obligations are provided for by obligations of the United State of America that are held in irrevocable trust by U.S. Bank National Association.

Excise Tax Obligations Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
Senior Obligations:				
2011A	Highway Project Advancement Notes	\$ 77,835,000	7/1/17-21	\$ 77,835,000 (m)
2013	Excise Tax Revenue Obligations	94,060,000	7/1/27, 7/1/32	94,060,000
Subordinate Obligations:				
2012	Phoenix-Mesa Gateway Airport Authority	19,220,000	7/1/14-38	18,800,000
Total Excise Tax Obligations Outstanding				<u><u>\$ 190,695,000</u></u>

- (m) The City expects to redeem \$77,835,000 Highway Project Advancement Notes, Series 2011A on the August 1, 2015 optional redemption date.

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

The City contributes to three separate defined benefit pension plans for the benefit of all general employees of the City and elected officials. Please refer to APPENDIX D – “Audited General Purpose Financial Statements for the Fiscal Year Ended June 30, 2014” for a more detailed description of these plans and the City contributions to the various plans.

The Arizona State Retirement System (“ASRS”), a cost-sharing, multiple employer defined benefit plan, has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: <https://www.azasrs.gov/content/annual-reports>. The effect of the increase in ASRS’ unfunded liabilities on the City, or on the City’s and its employees’ future annual contribution to ASRS, are projected to increase in future years.

The ASRS contribution rate for Fiscal Year 2014/15 is 11.60 percent and includes retirement and long-term disability. The City’s contributions to the ASRS for Fiscal Years 2013/14 and 2012/13 were \$16.9 million and \$16.6 million, respectively, both of which were equal to the required contributions for the year. The contribution rate, including retirement and long-term disability, for Fiscal Year 2012/13 was 11.14 percent for the City and for member employees, and for Fiscal Year 2013/14, the rate increased to 11.54 percent for the City and for member employees. Additional increases are projected by the actuary through Fiscal Year 2017/18.

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

For Fiscal Year 2014/15, the City’s contribution rates for PSPRS are 32.59 percent for fire and 33.07 percent for police. For Fiscal Year 2013/14, active PSPRS members were required by statute to contribute 10.35 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rate of 31.26 percent for fire and 31.21 percent for police, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution was set at 1.68 percent for fire and 1.88 percent for police of covered payroll.

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

New Reporting Requirements

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

Other Post-Employment Benefits

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

OPEB costs every two years. City contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in net OPEB costs, which under GASB 45 will be required to be recorded as a liability in the City's financial statements.

The City provides post-retirement health care benefits to all retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2014, approximately 1,700 former employees and beneficiaries were eligible for these benefits. Other Post Employment Benefits costs incurred by the City in Fiscal Year 2013/14 were \$50.0 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 16 – Post Employment Benefit on page 79 of the City's audited financial statements for Fiscal Year 2013/14 presented in APPENDIX D.

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost and the related information for the plan are as follows at June 30, 2014:

Annual Required Contribution	\$56,338,498
Interest on Net OPEB Obligation	17,507,207
Adjusted to Annual Required Contribution	<u>(28,884,322)</u>
Annual OPEB Cost	49,961,383
Contributions Made	<u>(16,010,780)</u>
Increase in Net OPEB Obligation	33,950,603
Net OPEB Obligation - Beginning of Year	<u>389,049,055</u>
Net OPEB Obligation - End of Year	<u><u>\$422,999,658</u></u>

The City's net OPEB obligation as of June 30, 2014 was \$422,999,658. Contributions for Fiscal Year 2013/14 were \$16,010,780.

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

**CITY OF MESA, ARIZONA
UTILITY SYSTEMS INFORMATION**

Electric System

The City of Mesa (the “City” or “Mesa”) Energy Resources Department’s Electric Utility System (“Electric System”) has been in operation since 1917. The Electric System’s electric service area (“ESA”) covers approximately six square miles including the downtown business center of the City. As of the fiscal year ended June 30, 2014, the Electric System served a total of 16,460 customers comprised of 13,966 residential and 2,494 commercial and other customers. There are no industrial customers in the ESA. A fiscal year summer system peak demand of approximately 82.8 MWs and system energy requirements of 323,552 MWhs was metered at the Rogers Substation, the Electric System’s point of supply.

During the fiscal year ended June 30, 2014, the Electric System’s power and transmission resource scheduling and utilization were managed through its participation in the Resources Management Services program (“RMS”) administered by the Western Area Power Administration (“Western”) of the United States Department of Energy. Western provided scheduling, dispatching and accounting functions and purchased supplemental power, as needed, on a monthly, daily and real-time basis. The RMS group consists of Mesa, Electrical District Number Two (ED-2), the Town of Fredonia, Aha Macav Power Service, and the Cortaro-Marana Irrigation and Drainage District. As part of the RMS group, these entities pool loads and resources to achieve the benefits of diversity and greater economies of scale in purchased power transactions.

The supply-side resource portfolio during the Electric System’s fiscal year beginning July 1, 2013 and ending June 30, 2014 was comprised of long-term purchased power agreements and short-term seasonal and daily power market purchases. The Electric System contracts for long-term power based on the results of competitive requests for proposals. Additionally, as a member in RMS, the City has access to the wholesale power supply market and the ability to engage in *ad hoc*, short-term firm and non-firm transactions. Current power supply resources for the Electric System are as follows:

Electric Power Resources	Expiration Dates	Contract MW	
		Summer	Winter
Western Area Power Administration (1):			
* Parker-Davis Project	09/2028	10.4	8
* Colorado River Storage Project	09/2024	4.3	3.4
Exelon Generation Company, LLC (2)	03/2017	15	15
Exelon Generation Company, LLC (3)	08/2015	10	10
Exelon Generation Company, LLC (4)	10/2018	10	0
Shell Energy North America, L.P. (5)	12/2018	10-0	11-1
Shell Energy North America, L.P. (6)	09/2015	15	0

- (1) Mesa and Western are parties to two long-term contracts that provide hydroelectric power from the Parker-Davis Project (“P-DP”) and the Colorado River Storage Project (“CRSP”). The P-DP contract expires on September 30, 2028, and the CRSP contract expires on September 30, 2024.
- (2) Mesa and Exelon Generation Company, LLC (“Constellation”) are parties to a 5-year firm 15 MW, 7 x 24, base-load power purchase and sale agreement for demand with associated energy beginning April 1, 2012 and expiring March 31, 2017. Please note that effective November 25, 2013, Constellation was merged into Exelon Generation Company, LLC.
- (3) Mesa and Constellation are also parties to 3-year firm 10 MW, 7 x 16, on-peak power purchase and sale agreement for demand with associated energy beginning July 1, 2013 (for power in July and August) and expiring August 31, 2015.

- (4) Mesa and Constellation are also parties to 5-year firm 10 MW, 7 x 16, on-peak, Day-Ahead Call Option power purchase and sale agreement for firm energy beginning June 1, 2014 and expiring October 31, 2018.
- (5) Mesa and Shell Energy North America, L.P. (“SENA”) are parties to a 5-year firm 11-0 MW, 7 x 24, base-load power purchase and sale agreement for demand and associated energy beginning January 1, 2014 and terminating December 31, 2018. This contract has varying levels of power by month.
- (6) Mesa and SENA are also parties to a 3-year firm 15 MW, 7 x 16, on-peak power purchase and sale agreement for demand and associated energy beginning May 1, 2013 and terminating September 30, 2015.

Mesa’s purchased power and energy resources are contractually transmitted over Western’s Parker-Davis and Pacific Intertie transmission systems to Western’s 500/230 kV West Wing and 230 kV Pinnacle Peak Substations and then to the 230 kV Rogers Substation, jointly owned by Salt River Project (“SRP”), Western, and Mesa. The power and energy are then transmitted to Mesa’s 69kV lines to seven electrical distribution substation facilities (12kV) owned by Mesa and operated by the Electric System and distributed to Mesa’s service area through associated distribution lines. As of June 30, 2014 there were approximately 200 miles of overhead primary and approximately 244 miles of underground primary distribution lines that distribute power to the customer end-use distribution transformers.

Electrical Utility Industry Deregulation

In the 1998 legislative session, the Arizona legislature adopted House Bill 2663 (“H.B. 2663”). H.B. 2663 attempted to establish a framework for the adoption of administrative rules by the Arizona Corporation Commission (“ACC”) for the phasing in of electric competition for the sale of retail power by public power entities (such as Mesa). Under H.B. 2663, however, Mesa could “opt out” and not open its service area to competition so long as Mesa did not provide service outside its service area boundaries. In August of 1998, Mesa adopted a resolution exercising its authority to “opt out” of competition due to non-competition covenants made by Mesa in the Master Resolution. In 2000, however, the Arizona legislature adopted Senate Bill 1056 (“S.B. 1056”) under which Mesa was required to open its service territory to competition beginning in January 2002.

Electric industry restructuring in Arizona, however, may be considered to be on hold indefinitely given the lack of substantive regulatory activity since 2004 and the issuance of a variety of regulatory orders beginning in 2002 and an Arizona Court of Appeals opinion in 2014, that have invalidated or placed on hold rules and regulatory actions considered significant prerequisites for implementing deregulation. This stance was reaffirmed on September 2013 when the ACC voted to close its recently opened docket concerning deregulation of the retail electric market in Arizona. This marked the second time the state started down the path of deregulation and opted against it.

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 * (2014/15)
Residential Electric Service = E1.1	
Monthly Bill Per Meter	
May 1 to October 31	
Customer Charge	\$6.50
Usage Charge	
First 1200 kWh	\$0.05128 per kWh
> 1200 kWh	\$0.04822 per kWh
November 1 to April 30	
Customer Charge	\$6.50
Usage Charge	
First 800 kWh	\$0.03765 per kWh
> 800 kWh	\$0.01633 per kWh
Energy Cost Adjustment Factor**	
Minimum	\$6.50
Non-Residential Service = E3.1	
Monthly Bill Per Meter	
May 1 to October 31	
Customer Charge	\$6.22
Demand Charge	
Generation	
First 50 kW	\$0.00 per kWh
>50 kW	\$3.52 per KW
Distribution	
First 50 kW	\$0.00 per kWh
>50 kW	\$0.3968 per KW
Energy Cost Adjustment Factor**	
Distribution	
First 15,000 kWh	\$0.06491 per kWh
15,001-75,000 kWh	\$0.04125 per kWh
>75,000 kWh	\$0.02901 per kWh
November 1 to April 30	
Customer Charge	\$6.22
Demand Charge	
Generation	
First 50 kW	\$0.00
>50 kW	\$3.20 per kW
Distribution	
First 50 kW	\$0.00
>50 kW	\$0.115 per kW
Energy Cost Adjustment Factor**	
Distribution	
First 15,000 kWh	\$0.05375 per kWh
15,001-75,000 kWh	\$0.03692 per kWh
>75,000 kWh	\$0.02060 per kWh

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

** The Energy Cost Adjustment Factor is a monthly per KWH charge that was implemented November 1, 2004, which allows for the full recovery of the costs of fuel and purchased power costs. The average Fiscal Year

2013/14 factor for residential was \$0.05152 per kWh and the average Fiscal Year 2013/14 factor for non-residential was \$0.04017 per kWh.

Source: City of Mesa Utility Rate and Fees Book Fiscal Year 2013/14. 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 (2010-2014)

<u>Date</u>	<u>Rate Increase</u>
August 1, 2014	Residential*
August 1, 2013	None
August 1, 2012	None
August 1, 2011	None
August 1, 2010	None

* For residential customers only, the monthly fixed component of rates (Electric System Service Charge) was increased by \$0.79.

Source: City of Mesa Energy Resources Department.

Schedule of Electric System Customers (Fiscal Years 2009/10 through 2013/14)

<u>Fiscal Year</u>	<u>Residential Customers</u>	<u>Commercial Customers</u>	<u>Other Customers</u>	<u>Total Customers</u>
2013/14	13,966	2,322	172	16,460
2012/13	13,613	2,298	184	16,095
2011/12	13,359	2,289	193	15,841
2010/11	13,290	2,250	185	15,725
2009/10	12,949	2,265	185	15,399

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

Schedule of the 10 Largest Electric System Customers

The following is a list of the ten largest Electric System customers in order by revenue.

Mesa Public Schools
 Centurylink, Inc.
 Pacifica Centennial, LLC
 Mesa Cold Storage
 Promise Hospital of Phoenix, Inc.
 Mesa Arizona Temple
 Brown and Brown Chevrolet
 Basha's Market-2
 Epicurean Fine Foods, Inc.
 Hogue Printing

The combined 2013/14 Electric System fees/charges for the top ten Electric System customers set forth above was \$3,162,861, constituting 10.27% of the total 2013/14 Electric System operating revenue (\$30,795,331). No individual Electric System customer above constitutes more than 5% of the total 2013/14 Electric System operating revenue. Additionally, while the list above is representative of the top ten Electric System customers as of the fiscal

year ended June 30, 2014, customer consumption can fluctuate, among other things, with customer process changes, efficiency enhancement and changes to business practices and locations. This can result in yearly shifts in the rankings of the specific customers. For instance, it is anticipated that Brown and Brown Chevrolet will be replaced on the list in future years. However, the City consistently uses budget forecasting methods to account for such variances.

The City also receives electric services from the Electric System, and records the revenue as interdepartmental revenue. For Fiscal Year 2013/14, Electric interdepartmental revenues were \$3,404,582. The City as a customer constitutes approximately 11% of the total 2013/14 Electric System operating revenue.

Source: City of Mesa Finance Department

Natural Gas System

The City Energy Resources Department's Natural Gas Utility System ("Natural Gas System") has been in operation since 1917, and the American Public Gas Association ("APGA") ranks the City's Natural Gas System as the 15th largest publicly-owned gas utility system in the United States in terms of customers served. The Natural Gas System's natural gas service territory is comprised of two major service areas: 1) the City Service Area ("CSA") of approximately 90 square miles within the City limits; and 2) the Magma Service Area ("MSA"), a 236 square mile system located southeast of the City in Pinal County, Arizona. As of the fiscal year ended June 2014, the City's combined Natural Gas System operated 1,264 miles of distribution mains and served approximately 58,011 total customers comprised of 55,615 Residential and 2,396 Commercial and other customers.

The Natural Gas System's natural gas supplies and associated contracts are designed to fulfill not only existing system requirements, but anticipate system growth and peak needs of that growth. During fiscal year ended June 2014, the Natural Gas System's natural gas supplies were provided by Shell Energy North America, L.P. ("SENA"). The natural gas supplies provided by SENA came from both the San Juan Basin in New Mexico and the Permian Basin in West Texas. The natural gas was transported via a major pipeline system owned and operated by El Paso Natural Gas Company LLC, a Kinder Morgan company ("EPNG"), under the terms and conditions of Transportation Service Agreements ("TSA") No. FT2AF000 and No. FT2AE000 that were effective February 1, 2013. During Fiscal Year 2013/14, TSA No. FT2AE000 was extended for 10 years effective July 1, 2014 given that it was due to expire June 30, 2014; TSA No. FT2AF000 continues on an "evergreen" year-to-year basis. The TSAs provide the Natural Gas System with the ability to transport its total, daily natural gas supplies to five (5) Natural Gas System-owned gate stations located in both the CSA and MSA.

For fiscal year ended June 2014, the Natural Gas System experienced a total natural gas supply hourly peak delivery of 1,308.4 DThs per hour. Total natural gas supply deliveries at the Natural Gas System's gate stations during fiscal year ended June 2014 were 2,883,963 DThs.

Facilities and distribution infrastructure necessary to provide service to the majority of the CSA has been completed. Continued growth of the Natural Gas System, especially in the MSA will require the extension of distribution mains in order to serve developing residential and commercial areas.

The following tables provide information with respect to the City's Natural Gas System.

Schedule of Current Natural Gas System Fees and Charges

Description of Natural Gas Services	Fee/Charge (2014/15)
City Service Area Residential Gas Service = G1.1	
May 1st through October 31st	
Gas System Service Charge	\$ 10.82
First 25 Therms	0.6685 / therm
All Additional Therms	0.2167 / therm
November 1st through April 30th	
Gas System Service Charge	\$ 13.75
First 25 Therms	0.6685 / therm
All Additional Therms	0.4926 / therm
Natural Gas Supply Cost Adjustment*	
City Service Area Gas Service = G3.1	
May 1st through October 31st	
Monthly Service Charge	\$ 30.17
First 1200 Therms	0.5280 / therm
All Additional Therms	0.3166 / therm
November 1st through April 30th	
Monthly Service Charge	\$ 39.85
First 1200 Therms	0.5718 / therm
All Additional Therms	0.4574 / therm
Natural Gas Supply Cost Adjustment*	
Magma Service Area Residential Gas Service = GM1.1	
May 1st through October 31st	
Gas System Service Charge	\$ 11.81
First 25 Therms	0.7370 / therm
All Additional Therms	0.2388 / therm
November 1st through April 30th	
Gas System Service Charge	\$ 15.05
First 25 Therms	0.7370 / therm
All Additional Therms	0.5433 / therm
Natural Gas Supply Cost Adjustment*	
Magma Service Area General Gas Service = GM3.1	
May 1st through October 31st	
Monthly Service Charge	\$ 36.99
First 1200 Therms	0.6522 / therm
All Additional Therms	0.3910 / therm
November 1st through April 30th	
Monthly Service Charge	\$ 48.92
First 1200 Therms	0.7061 / therm
All Additional Therms	0.5648 / therm
Natural Gas Supply Cost Adjustment*	

* The Natural Gas Tariff Adjustment allows for the full recovery of the cost of natural gas. It is a monthly per billed therm charge. The average factor for Fiscal Year 2013/14 for residential and general service was \$0.46823 per therm.

Source: City of Mesa Energy Resources 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 Rate Increases (2010-2014)

Date	Rate Increase
August 1, 2014	\$1.14*
August 1, 2013	0.00%
August 1, 2012	0.00%
August 1, 2011	2.50%
August 1, 2010	2.50%

* The monthly fixed component of rates (Gas System Service Charge/Monthly Service Charge) was increased by \$1.14 for both residential and non-residential customers.

Source: City of Mesa Energy Resources Department.

Schedule of Natural Gas System Customers (Fiscal Years 2009/10 through 2013/14)

Fiscal Year	Residential Customers	Commercial Customers	Other Customers	Total Customers
2013/14	55,615	2,175	221	58,011
2012/13	54,544	2,191	206	56,941
2011/12	53,408	2,207	213	55,828
2010/11	52,326	2,195	211	54,732
2009/10	51,819	2,215	211	54,245

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

Schedule of the 10 Largest Natural Gas System Customers

The following is a list of the ten largest Natural Gas System customers in order by revenue.

Banner Desert Medical Center
Regional Public Transit Authority
Mesa Public Schools
Waste Management of Arizona, Inc.
Banner Corporate Center
Commercial Metals Company
PI Properties No. 11, LLC
The Boeing Company
Banner Gateway Medical Center
Cal-Am Properties, Inc.

The combined 2013/14 Natural Gas System fees/charges for the top ten Natural Gas System customers set forth above was \$3,932,605, constituting 10.13% of the total 2013/14 Natural Gas System operating revenue (\$38,807,391). No individual Natural Gas System customer constitutes more than 3% of the total 2013/14 Natural Gas System operating revenue. Additionally, while the list above is representative of the top ten Natural Gas System customers as of the fiscal year ended June 30, 2014, customer consumption can fluctuate, among other things, with customer process changes, efficiency enhancement and changes to business practices and locations. This can result in yearly shifts in the rankings of the specific customers. However, the City consistently uses conservative budget forecasting methods to account for such variances.

The City receives gas services from the Natural Gas System and records the revenue as interdepartmental revenue. For Fiscal Year 2013/14 Natural Gas interdepartmental revenues for the City were \$420,252.

Source: City of Mesa Finance Department.

Water System

The water utility system of the City (the “Water System”) serves a population of over 465,000, residing within a 170 square mile area. The Water System currently consists of approximately 135,000 residential and commercial connections. The City is well positioned to provide reliable delivery of quality water to meet current and future demands.

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

The City has 19 storage facilities in the Water System service area capable of holding 105 million gallons. The City has approximately 2,300 miles of water distribution mains. A backflow prevention program has been implemented and enforced to protect the quality of the drinking water from possible sources of contamination. The total current capacity of the Water System is approximately 245 million gallons per day (“mgd”). The record peak day was in 2005 and required approximately 138 mgd. The average day in calendar year 2014 was 81 mgd with a peak day of 115 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 38% of the water delivered by the City.

Colorado River water is delivered to the City via the CAP Canal. The water is treated at the Mesa CAP Water Treatment Plant, which recently was expanded to 72 mgd and produces approximately 50% of the City’s water.

Groundwater wells produce the remaining 12% of the water delivered by the City on an average day. The City currently has 32 active groundwater wells with a pumping capacity of approximately 83 mgd. The continued development of new wells provides water supplies for future growth, but more importantly, provides redundancy in case of drought, scheduled maintenance of surface water canals, or operational issues within the surface water system.

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

The City’s water master plan was updated in 2012.

The following tables provide information with respect to the City's Water System.

Schedule of Current Water System Fees and Charges

<u>Description of Water System Services</u>	<u>Fees/Charges</u>
Monthly Minimum Bill-All Classes, All Zones*	
3/4 Inch	\$ 24.14
1 Inch	27.04
1 1/2 Inch	37.85
2 Inches	49.64
3 Inches	98.33
4 Inches	155.72
6 Inches	298.22
8 Inches	441.64
10 Inches	598.31
*Includes the first 3,000 gallons of water as a minimum charge for capacity availability	
Monthly Volume Charge - Residential	
First 12,000 Gallons of Water	\$2.74/1,000 Gallons
Next 12,000 Gallons of Water	\$4.11/1,000 Gallons
Additional Usage	\$4.60/1,000 Gallons

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

Schedule of Water System Rate Increases (2010-2014)

<u>Date</u>	<u>Rate Increase</u>
July 1, 2014	7.00%
August 1, 2013	2.00%
August 1, 2012	0.00%
August 1, 2011	6.80%
August 1, 2010	5.50%

Source: City of Mesa Water Resources Department.

**Schedule of Water System Customers
(Fiscal Years 2009/10 through 2013/14)**

<u>Fiscal Year</u>	<u>Residential Customers</u>	<u>Commercial Customers</u>	<u>Multi-Unit Customers</u>	<u>Total Customers</u>
2013/14	123,064	10,197	4,486	137,747
2012/13	121,486	10,220	4,462	136,168
2011/12	120,335	10,125	4,443	134,903
2010/11	119,359	10,025	4,380	133,764
2009/10	121,194	10,119	4,410	135,723

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

Schedule of the 10 Largest Water System Customers

The following is a list of the ten largest Water System customers in order by revenue.

Mesa Public Schools
ASU East Single Family Homes
LDS Church
Cal-Am Properties, Inc.
Gilbert Public Schools
Commercial Metals Company
Banner Desert Medical Center
Platypus Development, LLC
Bella Via Community Association
IMT-LB Del Coronado/Mesa LLC

The combined 2013/14 Water System fees/charges for the top ten Water System customers set forth above was \$5,451,082 constituting 4.84% of the total 2013/14 Water System operating revenue (\$112,713,697). No individual Water System customer above constitutes more than 2% of the total 2013/14 Water System operating revenue. Additionally, while the list above is representative of the top ten Water System customers as of the fiscal year ended June 30, 2014, customer consumption can fluctuate, among other things, with customer process changes, efficiency enhancement and changes to business practices and locations. This can result in yearly shifts in the rankings of the specific customers. For instance, it is anticipated that Platypus Development, LLC will be replaced on the list in future years. However, the City consistently uses budget forecasting methods to account for such variances.

The City receives water services from the Water System and records the revenue as interdepartmental revenue. For Fiscal Year 2013/14 Water interdepartmental revenues for the City were \$4,158,879.

Source: City of Mesa Water Resources Department.

Wastewater System

The City's gravity wastewater collection system (the "Wastewater System") currently serves approximately 127,000 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 Mesa and four other nearby municipalities within the Sub-Regional Operating Group ("SROG"), currently has a 205 mgd capacity. Mesa's portion of that amount is approximately 29 mgd.

The City owns and operates three water reclamation plants. The Northwest Water Reclamation Plant ("NWWRP") currently has a treatment capacity of 18 mgd. Reclaimed water from the NWWRP is delivered to the Granite Reef Underground Storage Project where it is converted into water rights that can be used to meet future potable water demands. The plant also has solids treatment processing capabilities.

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

The GWRP is a regional plant operated by Mesa, and co-owned with the Towns of Gilbert and Queen Creek. The GWRP serves southeast Mesa and a portion of northeast Mesa. GWRP currently has a treatment capacity of 16 mgd of which Mesa owns 4 mgd. The ultimate treatment capacity of the plant is expected to reach 52 mgd with Mesa's portion expected to reach 26 mgd. The plant currently has bio-solids processing capacity of 24 mgd of which Mesa owns 12 mgd. The ultimate bio-solids capacity of the plant is expected to reach 58 mgd, of which Mesa will own 30 mgd. Reclaimed water from the SEWRP and the GWRP is delivered to the Gila River Indian Community (the "Community") for agricultural use as part of a contractual water exchange. Through this exchange, the City receives four acre-feet of Central Arizona Project water for use in its potable system for every five acre-feet of reclaimed water that is delivered to the Community.

The City has approximately 1,650 miles of sewer mains, 15 lift stations, 20 odor control stations, 5 metering stations, and 30 diversion structures in its wastewater collection system. In addition, the City is part owner in the Baseline/Southern Interceptors, and the Salt River Outfall (“SRO”) interceptor mains that transport sludge and wastewater to the 91st Avenue WWTP. The City’s Wastewater System master plan was updated in 2013.

The City’s Wastewater System and current agreements allow for a treatment capacity of approximately 60 mgd. The average day during calendar year 2014 was 33 mgd, with a peak day of 45 mgd.

The following tables provide information with respect to the City’s Wastewater System.

Schedule of Current Wastewater System Fees and Charges

<u>Description of Wastewater System Services</u>	<u>Fee/Charge (2014/15)</u>
Residential Sewer Service - Inside City	
Monthly Bill	
Service Charge	\$16.40
User Charge Component (average winter water consumption)	1.34 / 1,000 gallons
Capital Related Component (average winter water consumption in excess of 5,000 gallons)	2.43 / 1,000 gallons
General Commercial Sewer Service - Inside City	
Monthly Bill	
Service Charge	\$16.86
User Charge Component (all water used)	1.34 / 1,000 gallons
Capital Related Component (all water used in excess of 5,000 gallons)	2.43 / 1,000 gallons
Multi-Unit Dwelling Sewer Service - Inside City	
Monthly Bill	
Service Charge	\$16.86
User Charge Component (all water used)	1.34 / 1,000 gallons
Capital Related Component (all water used in excess of 5,000 gallons)	2.43 / 1,000 gallons
Industrial Sewer Service - Inside City	
Monthly Bill	
Capital Component	
Flow (in excess of 5,000 gallons)	\$2.370 / 1,000 gallons
BOD (in excess of lbs. contributed in first 5,000 gallons)	0.184 / pound
SS (in excess of lbs. contributed in first 5,000 gallons)	0.152 / pound
User Charge Component	
Flow	\$0.696 / 1,000 gallons
BOD (Biochemical Oxygen Demand)	0.340 / pound
SS (Suspended Solids)	0.203 / pound
Minimum - Capital Component (includes use of 5,000 gallons)	13.02
User Charge Billing Component	2.81

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

Schedule of Wastewater System Rate Increases (2010-2014)

<u>Date</u>	<u>Rate Increase</u>
July 1, 2014	7.00%
August 1, 2013	2.00%
August 1, 2012	0.00%
August 1, 2011	5.80%
August 1, 2010	4.50%

Source: City of Mesa Water Resources Department.

**Schedule of Wastewater System Customers
(Fiscal Years 2009/10 through 2013/14)**

<u>Fiscal Year</u>	<u>Residential Customers</u>	<u>Commercial Customers</u>	<u>Multi-Unit Customers</u>	<u>Industrial Customers</u>	<u>Other Customers</u>	<u>Total Customers</u>
2013/14	112,813	5,457	4,352	1	0	122,623
2012/13	111,171	5,398	4,335	1	0	120,905
2011/12	110,007	5,378	4,333	2	0	119,720
2010/11	107,275	4,839	4,269	2	460	116,845
2009/10	108,355	4,487	4,323	2	880	118,047

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

The following is a list of the ten largest Wastewater System customers in order by revenue.

Mesa Public Schools
Cal-Am Properties, Inc.
Town of Gilbert
ASU East Single Family Homes
Platypus Development, LLC
Banner Desert Medical Center
IMT-LB Del Coronado/Mesa LLC
Wal-Mart Stores, Inc.
Standard Phoenix Fund, LLC
Viewpoint RV Resort, LLC

The combined 2013/14 Wastewater System fees/charges for the top ten Wastewater System customers set forth above was \$3,974,656 constituting 5.96% of the total 2013/14 Wastewater System operating revenue (\$66,671,967). No individual Wastewater System customer above constitutes more than 2% of the total 2013/14 Wastewater System operating revenue. Additionally, while the list above is representative of the top ten Wastewater System customers as of the fiscal year ended June 30, 2014, customer consumption can fluctuate, among other things, with customer process changes, efficiency enhancement and changes to business practices and locations. This can result in yearly shifts in the rankings of the specific customers. For instance, it is anticipated that Platypus Development, LLC will be replaced on the list in future years. However, the City consistently uses budget forecasting methods to account for such variances.

The City receives wastewater services from the Wastewater System and records the revenue as interdepartmental revenue. For Fiscal Year 2013/14 Wastewater interdepartmental revenues for the City were \$327,430.

Source: City of Mesa Water Resources Department.

Solid Waste System

The City's solid waste system (the "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 130,073 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 3,000 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 43% of the total commercial customers in the City. The City's solid waste collection system utilizes both a blue barrel and green barrel curbside recycling program. A 32% diversion rate in materials going to landfills is realized from these programs, saving the City considerable expense.

In December 2007, the City extended its agreement through December 31, 2015 for use of the Salt River-Pima Maricopa Indian Community's landfill located directly north of the City across the Salt River. This landfill is a designed facility that meets all Federal Subtitle D requirements.

In 2014, the City negotiated and entered into six new agreements covering eleven landfills and/or Transfer Stations. These additional facilities allow the City to reduce our overall operating costs. These facilities meet all Federal Subtitle D requirements.

Schedule of Current Solid Waste System Fees and Charges

Residential Solid Waste System Monthly Billing

- Rate R1.2*: \$25.45 per unit for single dwellings units, duplexes, triplexes and fourplexes when the water account servicing the unit or units is active or where the resident resides within Mesa Solid Waste service area, for once per week residential solid waste barrel collection and once per week recycling barrel collection (90 gallon individual garbage barrel).
\$22.72 per unit for single dwelling units when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for once per week residential solid waste barrel collection and once per week recycling barrel collection (60 gallon garbage barrel).
- Rate R1.21: \$12.02 per each additional 60/90 gallon solid waste barrel collected on same day as first solid waste barrel.
- Rate R1.23: \$27.30 per unit for the first barrel in addition to the above R1.2 rate for twice per week solid waste collection, and \$12.02 for each additional barrel at twice per week.
- Rate R1.24*: \$22.72 per unit for multiple dwelling units with five to twenty units when the water account servicing the units is active, or where the resident resides within Mesa Solid Waste service area for once per week solid waste barrel collection and once per week recycling barrel collection.
- Rate R1.26*: \$25.45 per unit for duplexes, triplexes and fourplexes when the water account servicing the unit or units is active, or where the resident resides within Mesa Solid Waste service area for metal bin service.
- Rate R1.27*: \$22.72 per unit for multiple dwelling units with five to twenty units when the water account servicing the units is active, or where the resident resides within Mesa Solid Waste service area for metal bin collection. Applicability of this rate shall be based on one-half cubic yard of capacity per unit per week.
- Rate R1.28: \$6.01 per each 90 gallon green waste barrel collected once per week.
- Rate R1.29*: \$24.62 per unit for single dwellings units, when the water account servicing the unit is active or where the resident resides within Mesa Solid Waste service area, for once per week residential solid waste barrel collection (90 gallon individual garbage barrel) and every other week recycling barrel collection, applicability subject to approval of the Deputy City Manager or designee.
\$21.88 per unit for single dwelling units when the water account servicing the unit is active, or where the resident resides within Mesa Solid Waste service area for once per week residential solid waste barrel collection (60 gallon garbage barrel) and every other week recycling barrel collection, applicability subject to approval of the Deputy City Manager or designee.

* A \$0.65 per billing cycle Mesa Green and Clean fee will be assessed to each dwelling unit.

Commercial Solid Waste System Monthly Billing

- Rate R3.8: \$25.45 for the first 90 gallon barrel for once per week solid waste barrel collection and once per week recycling barrel collection.
\$22.72 for the first 60 gallon barrel for once per week solid waste barrel collection and once per week recycling barrel collection.
- Rate R3.81: \$12.02 per each additional 60/90 gallon solid waste barrel for once per week solid waste barrel collection on same geographic in-zone day as the first barrel.
- Rate R3.82: \$27.30 per unit for the first barrel in addition to the above R3.8 rate for twice per week solid waste barrel collection, and \$12.02 for each additional barrel at twice per week.

Source: City of Mesa Solid Waste 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 (2010-2014)

<u>Date</u>	<u>Rate Increase</u>
July 1, 2014	6.90%
August 1, 2013	2.00%
August 1, 2012	0.00%
August 1, 2011	0.00%
August 1, 2010	0.00%

Source: City of Mesa Solid Waste Department.

Schedule of Solid Waste System Customers (Fiscal Years 2009/10 through 2013/14)

<u>Fiscal Year</u>	<u>Residential Customers</u>	<u>Commercial Customers</u>	<u>Other Customers</u>	<u>Total Customers</u>
2013/14	130,073	3,000	300	133,373
2012/13	122,682	3,034	302	126,018
2011/12	120,409	2,906	201	123,516
2010/11	115,811	2,166	219	118,196
2009/10	110,694	2,185	200	113,079

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

Schedule of the 10 Largest Solid Waste System Customers

The following is a list of the ten largest Solid Waste System customers in order by revenue.

Cal-Am Properties, Inc.
Mesa Public Schools
ViewPoint RV Resort, L.C.
Casa Fiesta Tempe Ltd. Ptsp.
Norton S. Karno APC ERT
Mobile Homes Communities
Tesoro at Greenfield Condo Assoc.
MHC Monte Vista, LLC
Sierra Villages Associates
Las Palmas, Ltd.

The combined 2013/14 Solid Waste System fees/charges for the top ten Solid Waste System customers set forth above was \$1,658,247 constituting 3.5% of the total 2013/14 Solid Waste System operating revenue (\$47,434,966). No individual Solid Waste System customer above constitutes more than 1% of the total 2013/14 Solid Waste System operating revenue. Additionally, while the list above is representative of the top ten Solid Waste System customers as of the fiscal year ended June 30, 2014, customer consumption can fluctuate, among other things, with customer process changes, efficiency enhancement and changes to business practices and locations. This can result in yearly shifts in the rankings of the specific customers. However, the City consistently uses budget forecasting methods to account for such variances.

The City receives solid waste services from the Solid Waste System Department and records the revenue as interdepartmental revenue. For Fiscal Year 2013/14 Solid Waste interdepartmental revenues for the City were \$453,679.

Source: City of Mesa Finance Department.

Billing and Collection Procedures

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

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

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CITY OF MESA, ARIZONA

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR
THE YEAR ENDED JUNE 30, 2014**

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.

City of Mesa, Arizona

Comprehensive Annual Financial Report

*For the Fiscal Year Ended
June 30, 2014*



City of Mesa, Arizona

Comprehensive Annual Financial Report

*For the Fiscal Year Ended
June 30, 2014*

John Giles
Mayor

Dave Richins
Councilmember, District 1

Alex Finter
Councilmember, District 2

Dennis Kavanaugh
Councilmember, District 3

Christopher Glover
Councilmember, District 4

David Luna
Councilmember, District 5

Scott Somers
Councilmember, District 6



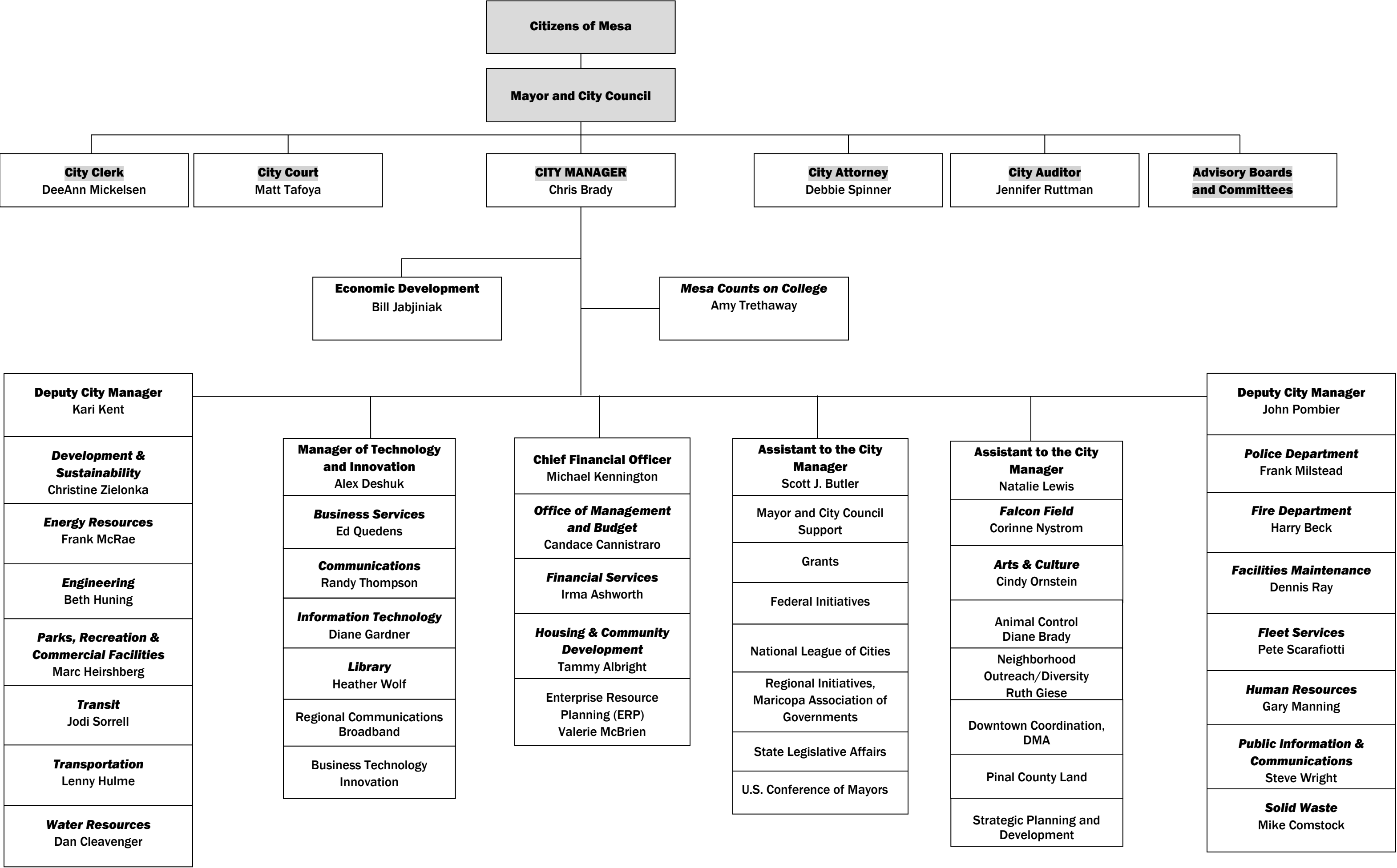
Kari Kent
Deputy City Manager



Chris Brady
City Manager



John Pombier
Deputy City Manager



Introductory Section

Banner Health

Cardon Children's Medical Center



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December 16, 2014

To the Citizens, Honorable Mayor, City Council and City Manager:

The Comprehensive Annual Financial Report of the City of Mesa (the “City”) for the fiscal year ended June 30, 2014 is hereby submitted.

Prepared by the Financial Services Department, this report consists of management’s representations concerning the finances of the City of Mesa. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by CliftonLarsonAllen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City for the fiscal year ended June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit that there was a reasonable basis for rendering an unmodified opinion that the City’s financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City’s separately issued Single Audit Report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A) and should

be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

The City was founded in 1878 and incorporated July 15, 1883 with an approximate population of 300 and an area of one square mile. Today, the City's estimated population is 454,981 compared with the 2000 decennial census count of 397,760, within an incorporated area of approximately 141 square miles. Total land area encompasses 182 square miles. The City is the 38th largest city in the United States and is the third largest city in the State of Arizona. Mesa is located 16 miles east of Phoenix, the State Capitol. The City operates under a charter form of government with citizens electing a Mayor and six Councilmembers to set policy for the City. City Councilmembers are elected from districts and serve terms of four years, with three members being elected every two years. The Mayor is elected at-large every four years. The Mayor and Council are elected on a non-partisan basis, and the Vice Mayor is selected by the City Council.

The Mayor and City Council are responsible for appointing the City Manager, City Attorney, City Auditor, City Clerk and the Presiding City Magistrate. The City Manager has full responsibility for carrying out City Council policies and administering City operations and is responsible for the hiring of City employees. Additionally, City employees are hired under merit system procedures as specified in the City Charter.

An allocated staff of 3,520 full-time (equivalent) City employees working within twenty-eight different City departments undertakes the various functions of Mesa's city government and its operation. 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; and, the City owns and operates enterprises including operations of electric, gas, water, wastewater, solid waste, airport and golf courses. The Mesa Art Center, which includes 212,755 square feet of performing arts, visual arts and art education facilities, is the largest comprehensive arts campus in the state. The Mesa Art Center was awarded the Venue Excellence Award by the International Association of Venue Managers. This prestigious award recognizes venues such as stadiums, convention centers, arenas, performing arts centers, and academic institutions that demonstrate excellence in the following four criteria: service to the community, team building/professional development, safety and security, and operational excellence.

The annual budget serves as the foundation for the City's financial planning and control. Historical data is analyzed during the creation of a multi-year financial forecast. The forecast provides a framework to assist Mesa's elected officials and executive team make important decisions about the direction of the City.

The City Council sets the City's long-term strategic direction and provides staff with budget priorities for the upcoming fiscal year. A proposed budget is presented to the City Council for review and discussion in mid spring with the final adoption of the operating budget by resolution in late spring. The City of Mesa begins the fiscal year on July 1st.

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 sets the limit. The residents of Mesa approved a Home Rule exemption to the State of Arizona's expenditure limitation requirement. The City can determine the budget level as long as the City can identify resources to cover the expenses.

The budget appropriated by the City Council consists of all planned expenditures and the associated resources to cover them. While the State does not require trust fund expenditures to be appropriated, the City chooses to include them in order to fully represent City activity.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy

The City's economic indicator for residential construction in fiscal year (FY) 2013/2014 is up 15% from FY 2012/2013. During FY13/14 the City issued 1,081 permits for new residential construction. This is 12% more than the previous fiscal year. The corresponding dollar valuation associated with all FY13/14 permits increased approximately \$83 million from the prior fiscal year. Analysis of the recent data indicates a steady level of construction activity in both the residential and commercial sectors. Activity levels have been increasing for the past four years and may indicate some level of sustained recovery from the economic slowdown of the prior years.

The increase in construction activity resulted in an associated increase in sales tax revenues. For the year ending June 30, 2014, overall sales tax revenues were up 4.9%, an increase of 4.1% from the adopted budget. Other financial resources followed the economy's continuation of a slow and steady recovery. The City incorporated this in the preparation of the FY14/15 budget.

Conservative budget practices and willingness to respond to economic indicators continues to allow the City to maintain unrestricted fund balance reserve levels as established in the City's financial policies. The FY14/15 budget continues the City's fiscally conservative approach and reinforces the City's effort to invest in economic development, improve public safety and attract and retain excellent employees. All fund balances were maintained at or above the levels prescribed by financial policy and prudent practice.

Major Initiatives

During the year, several major accomplishments have continued to be realized. Some of these were:

- The Mesa Riverview area is getting a massive boost to its hospitality accommodations in the form of Starwood Hotels and Resorts' Sheraton River View Hotel. The four-story, 160,000-plus-square-foot facility, directly adjacent to Cubs Park, will feature views of the park and easy access to games. This will allow baseball fans to stay as close to the action as physically possible. With 180 rooms, including seven VIP suites and one presidential suite with a balcony, the hotel is designed from top to bottom to provide an upscale environment. The resort includes a courtyard, patios with views of the mountains and the stadium, a sun terrace with a direct view of the scoreboard, fitness facilities, a full restaurant, a conference center and a ballroom and sports bar.
- The Oakland A's are putting the finishing touches on their upgrades to Hohokam Park and the training facility at the adjacent Fitch Park in preparation for the 2015 Spring Training season. The A's have added nearly 26,000 square feet to the facilities at Fitch Park, including a strength-training room nearly three times larger than the team previously had, a hydrotherapy room that will include an underwater treadmill, and locker rooms designed to accommodate up to 200 players and about 50 coaches at one time. At Hohokam Park, the A's have upgraded the seating bowl, patio areas, the home clubhouse and the scoreboard. The project is expected to cost \$27 million with Mesa's portion capped at \$17.5 million of the cost.
- This fall, Benedictine University began its second academic year at its Mesa branch campus with more than 200 students – more than doubling its enrollment since the school opened its doors in fall 2013. One reason for the strong enrollment increase is the University's commitment to making higher education affordable and attainable by providing as much financial assistance as possible to those in need so that a private, Catholic education can become a reality for them. Student-athletes have begun competing in men's and women's cross country, golf, tennis and volleyball this fall as the Benedictine University at Mesa "Redhawks."
- The City of Mesa, in partnership with Arizona State University (ASU), has announced the Business Academy at LAUNCHPOINT, a free program to train entrepreneurs in a variety of methodologies, to validate business ideas, and to position their companies for funding opportunities. The first class at the Business Academy at LAUNCHPOINT began in the fall 2014 and will run through May 2015. The participants will be directed through an eight-month, structured program that will give entrepreneurs the competitive edge when pursuing funding opportunities. LAUNCHPOINT will provide each participant with free private office space and furniture, business center access, phone and Internet service, 24/7 facility access, on-site parking and mail service.
- OneSource Virtual (OneSource), a leading cloud-based Business Process Outsourcing (BPO) provider, announced it is opening a 21,182 sq. ft. processing facility that will create approximately 120 jobs in Mesa by the end of 2015. The new office will allow OneSource to strategically service an established and growing customer base in the Pacific and Mountain Time Zones through expanded hours of operations.
- Phoenix Rising Investments, LLC has acquired and will renovate the Valley East Plaza Shopping Center, located in the heart of the Fiesta District. The remodeled complex will be known as Centrica and is expected to be completed by early 2015. Centrica will

feature more than 110,000 sq. ft. of single story contiguous Class A office space, more than 700 parking spots and fiber optic backbone connectivity. Centrica will be located in prime real estate due to the proximity to both the U.S. 60 and Loop 101 freeways, easy access to public transit and the amenities surrounding the area. “Centrica will be within walking distance to an abundance of restaurants, retail, and educational facilities – and just a twenty-minute commute for over one million well-educated people,” Michael Hsiung, Principal of Phoenix Rising Investments, LLC said.

- American Traffic Solutions (ATS), a market leader in road safety camera installations in North America, will move its corporate headquarters and 600 employees to a new office building planned at Mesa Riverview in northwest Mesa. Arizona developers, Lincoln Property Co. and Harvard Investments are building the 250,000 sq. ft. Waypoint office complex, which will complete the partially built Riverview Point Office Park. ATS will occupy 108,000 sq. ft. in the smaller building of the two-building Waypoint complex. The new facility will allow ATS to bring its fleet services and government solutions business units into one location, according to company CEO James Tuton. The company expects to add as many as 170 more employees at the location by 2017.
- According to recent lists published by the Phoenix Business Journal, Mesa’s Empire Southwest with more than 1,400 employees was ranked the 2nd largest family-owned business and the 6th largest privately-owned business in Arizona. Empire Southwest is currently completing the 90,000 sq. ft. expansion of its Mesa facility and adding a two-story, 25,000 sq. ft. office area that will contain Empire’s fluids lab and 10 service and support teams.
- A groundbreaking was held in August for El Rancho Apartments on the site of a blighted motel that will become a four-story apartment community with 66 units to house families with children. The \$13.6 million El Rancho development is a collaboration led by Community Development Partners (CDP) with the City of Mesa, Arizona Department of Housing, non-profit partner Integrity Housing, and supportive service provider A New Leaf, with the goal of providing life-enhancing safe, quality affordable housing in Downtown Mesa.
- In September 2014, Bridgestone Americas, Inc., a subsidiary of the world’s largest tire and rubber manufacturer, Japan-based Bridgestone Corporation, held a grand opening for its new Biorubber Process Research Center in the Mesa Gateway area to investigate the use of the Guayule plant as an alternative natural rubber source. The 10-acre site includes an 8,300 sq. ft. single-story office and laboratory building; a four-platform, 3,500 sq. ft. shrub prep building; a 5,500 sq. ft., two-level process building for rubber extraction, coproduct and solvent recycling; and a 3,100 sq. ft. mechanical and electrical building. The facility will employ more than 30 researchers and technicians.
- The U.S. Army has recently awarded Boeing a \$103.8 million contract to produce parts for Apache Helicopters. The parts will be produced at Boeing’s facility located in Mesa. Boeing’s Mesa facility was recently ranked by the Phoenix Business Journal as the third largest manufacturer in the Phoenix-Mesa metro area.

- The new section of State Route 24, which provides a direct connection between the Loop 202 (Santan Freeway) and Ellsworth Rd., opened in early May 2014. Construction of the \$73 million project began in March 2012. The City of Mesa accelerated the start of construction by several years through a transportation-bonding program. The program allowed Mesa to borrow money through the bond market, transfer the money to ADOT for construction, then repay the bonds with money the City has and will receive from Maricopa County's Prop 400 sales tax. This approach allowed the State and City to save millions of dollars. Mesa was able to avoid inflationary costs of building the freeway five to 10 years from now, and because of the recession, many contractors competed for the work resulting in bid prices coming in below engineering estimates.
- The METRO light rail Mesa drive extension project continues to progress with an estimated completion scheduled for late 2015. The project will add 3.1 miles of transit service through downtown Mesa. Four stations will serve the Mesa extension and support an estimated 5,000 passengers per day. In addition to light rail track, the project included new streetscape being built along the extension to better serve drivers, pedestrians, light rail passengers and bicyclists.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 31st consecutive year the City has received this prestigious award. The Certificate of Achievement for the comprehensive annual financial report for the fiscal year ended June 30, 2013 is currently under review by the GFOA. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The efficient and dedicated services of the City's Financial Services Director, Irma Ashworth, and the devoted staff of the Financial Services Division has made the preparation of the comprehensive annual financial report possible. Also, I want to thank the Mayor, members of the City Council and the City Manager for their continued interest and support of the staff's efforts in planning and conducting the financial operations of the City.

Respectfully submitted,

Michael Kennington,
Chief Financial Officer

Financial Section

Top Of The Class
Mesa For Higher Education



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2014, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, the City reported a change in accounting principle (See Note 18.) Beginning net position was restated as debt issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Debt issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. The auditors' opinion was not modified with regards to the restatement.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mesa, Arizona's basic financial statements. The combining and individual fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of the City of Mesa, Arizona'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mesa, Arizona's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Phoenix, Arizona
December 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Mesa, Arizona (the City), we offer this discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. This discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activities, 3) identify changes in the City's financial position, 4) identify any material deviations from the financial plan (the approved annual budget), and 5) identify individual fund issues and concerns.

The management's discussion and analysis should be read in conjunction with the transmittal letter presented on pages V-X, as well as the financial statements beginning on page 16 and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's net position at the end of the fiscal year was \$1.42 billion, of which \$57.9 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total revenues increased by \$76M from \$782.4 million to \$858.9 million. The increase is primarily from State Shared Revenues.
- As of the end of fiscal year 2014, the City's governmental funds reported a combined ending fund balance of \$288.6 million, a \$30.7 million decrease from the previous year. Approximately 33.0% of the total fund balance amount, or \$94.9 million is designated by the City as committed, assigned, or unassigned. The remaining 67.0% or \$193.8 million is designated as non-spendable or restricted.
- The City's total long-term liabilities remained comparable to prior year and were \$2.1 billion at June 30, 2014. The current year increases were offset by equal amounts of reductions.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements (pages 16-18) are designed to provide a broad overview of the City's finances in a manner similar to private businesses. All the activities of the City, except fiduciary activities, are included in these statements.

The *statement of net position*, Exhibit A-1, presents information on all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as *net position*. Over time increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities*, Exhibit A-2, presents information showing how the City's net position changed over the most recent fiscal year. All changes to net position are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This

is the accrual basis of accounting. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the Statement of Net Position and the Statement of Activities divide the functions of the City that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*Business-Type Activities*):

- The *governmental activities* include the City's basic services including general government (administration), public safety, cultural-recreational, and community environment. Taxes and general revenues generally support these activities.
- The *business-type activities* include private sector type activities such as the City-owned electric, gas, water, wastewater, and solid waste systems, as well as the City-owned airport, golf courses, stadiums, convention center, and district cooling. These activities are primarily supported by user charges and fees.

The City restated the beginning net position for the governmental activities and business type activities due to the implementation of GASB Statement No. 65. This resulted in a decrease to beginning net position of \$4.1 million and \$5.4 million in the governmental activities and business type activities, respectively. See Note 18 to the basic financial statements for additional details of these restatements.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2014 and 2013.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013 As Restated	2014	2013 As Restated	2014	2013 As Restated
Cash and Other Assets	\$ 610,158	\$ 569,087	\$456,593	\$ 542,024	1,066,751	1,111,111
Capital Assets	1,282,555	1,261,873	1,428,825	1,371,362	2,711,380	2,633,235
Total Assets	1,892,713	1,830,960	1,885,418	1,913,386	3,778,131	3,744,346
Deferred Amounts on Refundings	4,949	-	19,431	-	24,380	-
Non-current Liabilities Outstanding	936,843	931,360	1,188,235	1,151,357	2,125,078	2,082,717
Other Liabilities	154,735	124,839	101,169	106,263	255,904	231,102
Total Liabilities	1,091,578	1,056,199	1,289,404	1,257,620	2,380,982	2,313,819
Net Position:						
Net Investment in Capital Assets	866,332	902,397	393,720	346,352	1,260,052	1,248,749
Restricted	60,555	56,719	43,023	37,795	103,578	94,514
Unrestricted	(120,803)	(188,406)	178,702	266,265	57,899	77,859
Total Net Position	\$ 806,084	\$ 770,710	\$615,445	\$ 650,412	\$ 1,421,529	\$ 1,421,122

Net Position - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position, the amounts by which assets plus deferred outflows of resources, exceeded liabilities plus deferred inflows of resources, was \$1.4 billion at the close of the most recent year.

The largest portion of net position (\$1.3 billion or 88.6%) reflects the City's investment in capital assets (land, buildings, equipment, infrastructure, etc.) less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions on how they may be used. Such restrictions include debt service payments, transportation programs, and required bond indentures. The City's restricted assets increased \$9.1 million from \$94.5 million in fiscal year 2013 to \$103.6 million in fiscal year 2014 primarily due to increase in debt service restrictions.

The unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position decreased from \$77.9 million in fiscal year 2013 to \$57.9 million in fiscal year 2014 primarily due to the change in net position as shown on page 9.

Capital Assets – The following table provides a breakdown of the City's capital assets at June 30, 2014 and 2013:

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

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 297,398	\$ 278,120	\$ 54,167	\$ 57,847	\$ 351,565	\$ 335,967
Infrastructure - Nondepr	3,292	23	17,666	17,560	20,958	17,583
Buildings	223,178	215,299	64,255	29,927	287,433	245,226
Other Improvements	67,565	59,548	80,670	52,049	148,235	111,597
Machinery & Equipment	48,590	48,762	35,113	17,889	83,703	66,651
Intangibles	10,482	12,685	9,042	9,813	19,524	22,498
Infrastructure	467,476	479,063	932,917	906,013	1,400,393	1,385,076
Construction-in-Progress	164,574	168,373	234,995	280,264	399,569	448,637
Total	<u>\$ 1,282,555</u>	<u>\$ 1,261,873</u>	<u>\$ 1,428,825</u>	<u>\$ 1,371,362</u>	<u>\$ 2,711,380</u>	<u>\$ 2,633,235</u>

The City's net investment in capital assets for its governmental and business-type activities amounts to \$2.7 billion (net of accumulated depreciation/amortization) as of June 30, 2014. This net investment in capital assets includes land, buildings, other improvements, machinery and equipment, intangibles, and infrastructure. Infrastructure assets are items that are normally immovable and have value only to the City, such as streets, street lighting systems, and storm drainage systems.

The largest capital asset completed during the current fiscal year was the new Spring Training Facility for the Chicago Cubs Major League Baseball team in 2014. The City's cost to design and construct the stadium and related facilities is limited to \$84 million, with an additional cost to design and construct public infrastructure limited to \$15 million. These limits were established by a voter-approved election.

The remaining capital assets and construction projects were consistent with prior year additions and projects and primarily related to storm sewer projects, transportation projects, water projects and wastewater projects.

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements.

Debt Administration – The following schedule shows the outstanding long-term debt of the City as of June 30, 2014 and 2013.

Outstanding Long-term Debt
As of June 30
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 344,040	\$ 324,683	\$ 605	\$ 887	\$ 344,645	\$ 325,570
Utility System Revenue Bonds	-	-	991,995	978,160	991,995	978,160
Highway User Revenue Fund Bonds	107,705	114,650	-	-	107,705	114,650
Excise Tax Obligations	-	-	94,060	94,060	94,060	94,060
Special Assessment Bonds	-	-	-	-	-	-
with Governmental Commitment	3,574	4,318	-	-	3,574	4,318
Community Facility District	5,897	2,712	-	-	5,897	2,712
Capital Leases	72	140	-	-	72	140
Notes Payable	77,835	122,835	2,244	2,370	80,079	125,205
Total	<u>\$ 539,123</u>	<u>\$ 569,338</u>	<u>\$ 1,088,904</u>	<u>\$ 1,075,477</u>	<u>\$ 1,628,027</u>	<u>\$ 1,644,815</u>

At the end of the current fiscal year, the City had total outstanding debt of \$1.6 billion. Of this amount, \$438.7 million comprises debt backed by the full faith and credit of the City and \$1.1 billion represents bonds secured by specified revenue sources (i.e., Utility System Revenue and Highway User Revenue). An additional amount of \$9.5 million are special assessment and community facility district bonds where the City is contingently liable in the event that the assessment revenues are insufficient to satisfy the debt payments.

The City's outstanding long-term debt (considering new borrowings, debt retirements, and refunding) decreased \$16.8 million. The change in debt includes new borrowings during the fiscal year totaling \$77.2 million and principal payments of \$94 million.

The City's current bond ratings are as follows:

	Standard and Poor's <u>Corporation</u>	Moody's Investors <u>Service</u>
General Obligation Bonds	AA-	Aa2
Highway User Revenue Bonds	AA	A2
Utility Systems Revenue Bonds	AA-	Aa2

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

The City's total debt margin available at June 30, 2014 was \$153.0 million in the 6% capacity and \$167.9 million in the 20% capacity. Additional information on the City's long-term obligations can be found in Note 8 of the notes to the basic financial statements and also Table X in the Statistical Section.

Changes in Net Position

The following table shows the revenues and expenses of the City for the fiscal years ended June 30, 2014 and 2013.

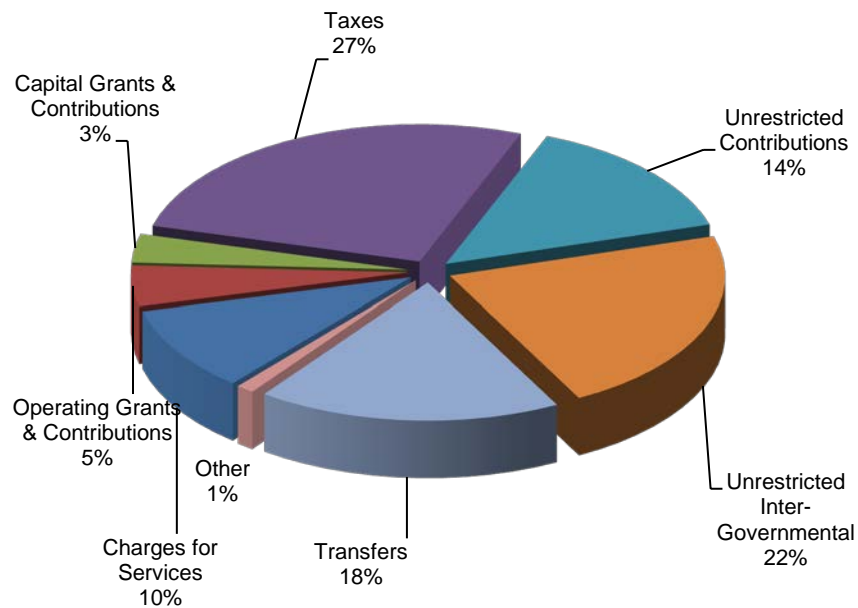
Changes in Net Position Year Ended June 30 (In thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013, as Restated	2014	2013, as Restated	2014	2013, as Restated
REVENUES						
Program Revenues:						
Charges for Services	\$ 61,193	\$ 58,198	\$ 304,554	\$ 308,088	\$ 365,747	\$ 366,286
Operating Grants & Contributions	29,514	55,312	9,056	9,402	38,570	64,714
Capital Grants & Contributions	20,714	25,049	17,331	7,998	38,045	33,047
General Revenues:						
Sales Taxes	140,567	137,280	-	-	140,567	137,280
Property Taxes	22,549	14,354	-	-	22,549	14,354
Occupancy Taxes	1,919	1,903	851	825	2,770	2,728
Unrestricted Intergovernmental Contributions	135,075	104,462	-	-	135,075	104,462
Unrestricted Investment Income	88,646	49,570	-	-	88,646	49,570
Gain on Disposal of Capital Assets	966	1,692	1,453	860	2,419	2,552
Miscellaneous	-	-	18,697	-	18,697	-
	5,550	7,424	288	-	5,838	7,424
Total Revenues	506,693	455,244	352,230	327,173	858,923	782,417
EXPENSES						
Governmental Activities:						
General Government	103,819	106,042	-	-	103,819	106,042
Public Safety	277,614	289,872	-	-	277,614	289,872
Cultural-Recreational	49,275	62,124	-	-	49,275	62,124
Community Environment	125,700	129,756	-	-	125,700	129,756
Interest on Long-term Debt	24,431	23,443	-	-	24,431	23,443
Business-type Activities:						
Electric	-	-	30,044	28,897	30,044	28,897
Gas	-	-	35,020	35,653	35,020	35,653
Water	-	-	93,871	106,112	93,871	106,112
Wastewater	-	-	65,637	94,419	65,637	94,419
Solid Waste	-	-	32,908	33,693	32,908	33,693
Airport	-	-	4,343	4,300	4,343	4,300
Golf Course	-	-	2,555	3,353	2,555	3,353
Convention Center	-	-	3,060	3,946	3,060	3,946
Hohokam Stadium/Fitch Complex	-	-	2,879	9,094	2,879	9,094
Cubs Stadium	-	-	6,201	-	6,201	-
District Cooling	-	-	1,153	1,081	1,153	1,081
Economic Investment	-	-	-	3,653	-	3,653
Total Expenses	580,839	611,237	277,671	324,201	858,510	935,438
Increase (decrease) in Net Position Before Transfers	(74,146)	(155,993)	74,559	2,972	413	(153,021)
Transfers	109,520	83,615	(109,520)	(83,615)	-	-
Change in Net Position	35,374	(72,378)	(34,961)	(80,643)	413	(153,021)
Total Net Position - As Adjusted	770,710	843,088	650,406	731,049	1,421,116	1,574,137
Net Position - ending	\$ 806,084	\$ 770,710	\$ 615,445	\$ 650,406	\$ 1,421,529	\$ 1,421,116

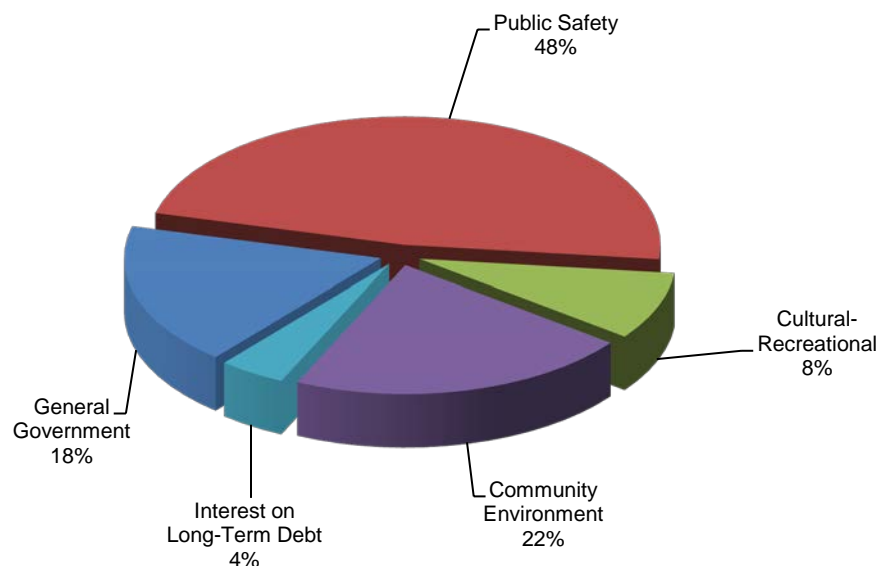
Governmental Activities

As presented in the following two graphs, the largest funding sources, including transfers, for the governmental activities are taxes (27%), Unrestricted Intergovernmental (22%), and transfers (18%). The largest users of resources for the governmental activities are Public Safety (48%), Community Environment (22%), and General Government (18%).

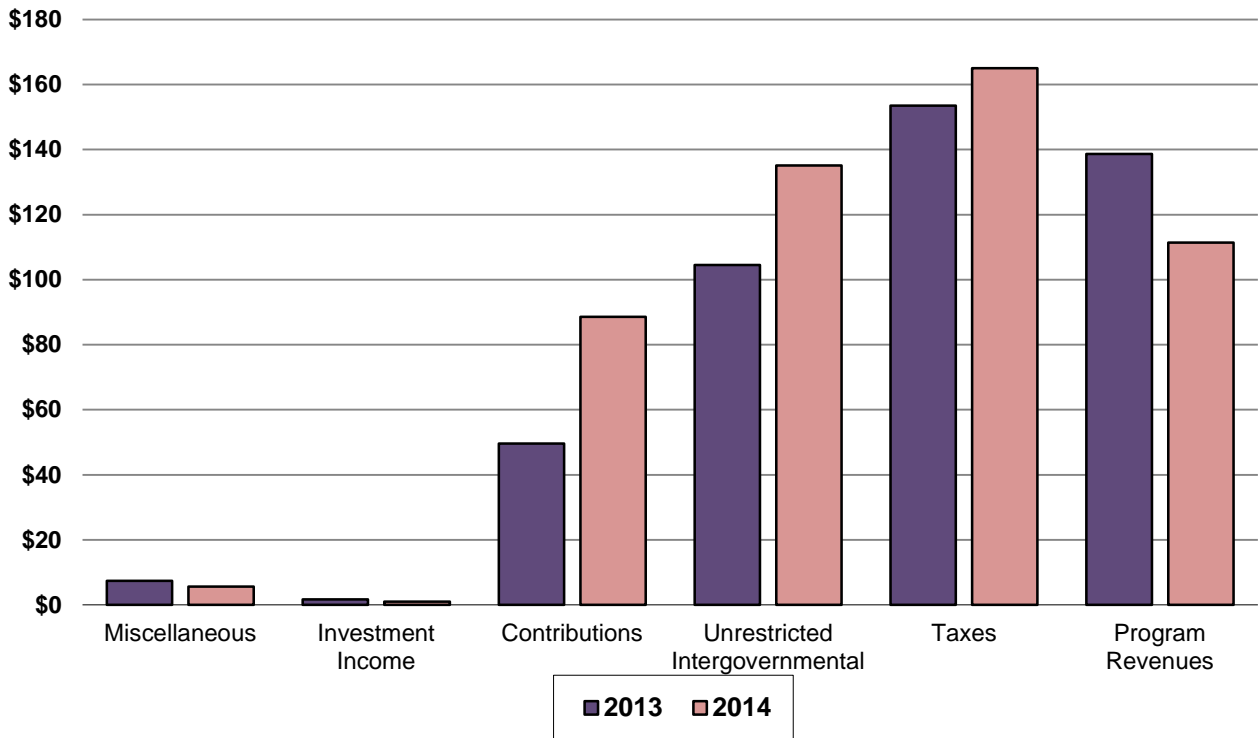
**Revenues by Source Including Transfers – Governmental Activities
For the Fiscal Year Ended June 30, 2014**



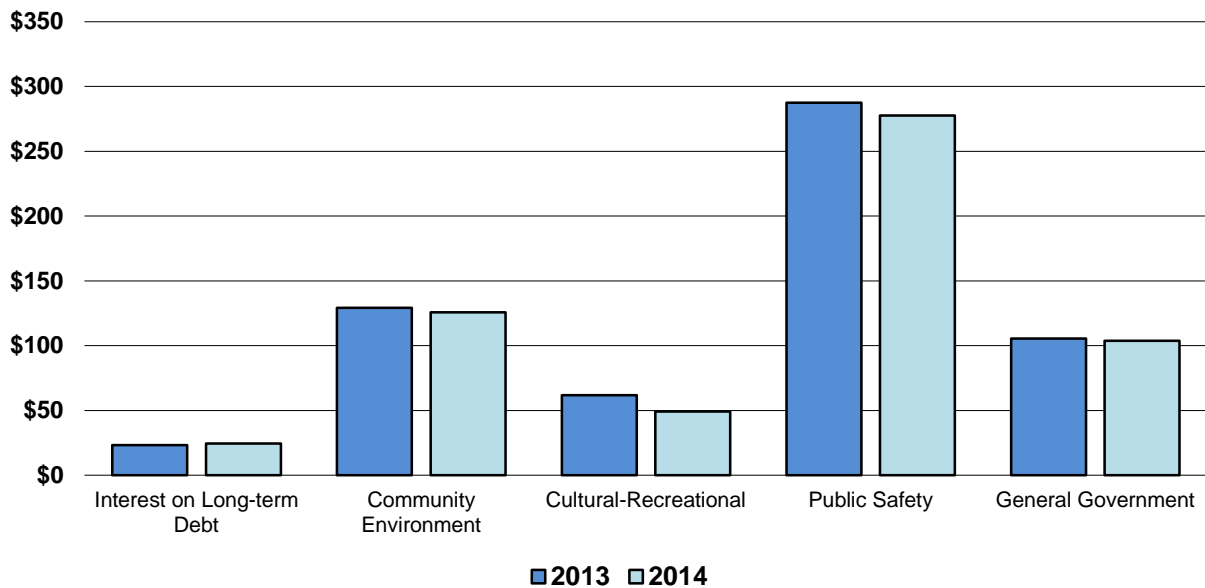
**Functional Expenses – Governmental Activities
For the Fiscal Year Ended June 30, 2014**



**Governmental Activities Revenues
For Fiscal Years 2014 and 2013**
(In millions of dollars)



**Governmental Activities Functional Expenses
For Fiscal Years 2014 and 2013**
(In millions of dollars)



The graphs above compare governmental activities revenues and expenses from fiscal year 2014 to fiscal year 2013. Total governmental activities revenues increased \$51.5 million from \$455.2 million to \$506.7 million. Total governmental expenses decreased by \$26.4 million from \$607.2 million to \$580.8 million.

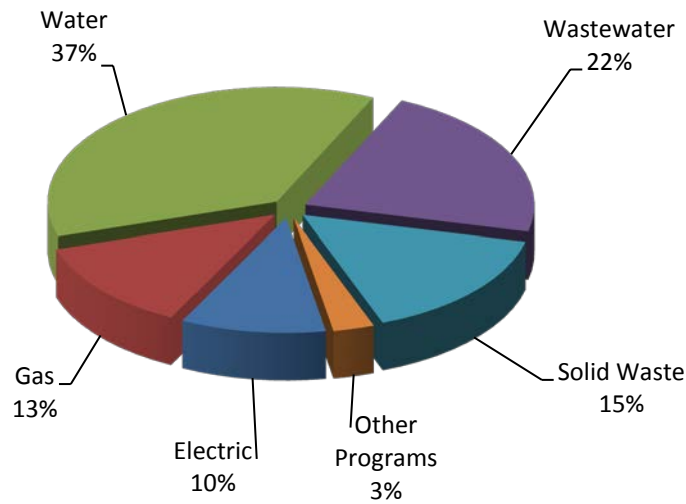
Key factors in this change include:

- Unrestricted inter-governmental revenue increased by \$30.6 million over the previous year. Increase is primarily due state shared revenues, reflecting an overall improvement in the local economy.
- Contributions increased \$39 million primarily due to an increase in donated capital assets.
- There was an overall decrease in accruals related Post-Employment Benefits.

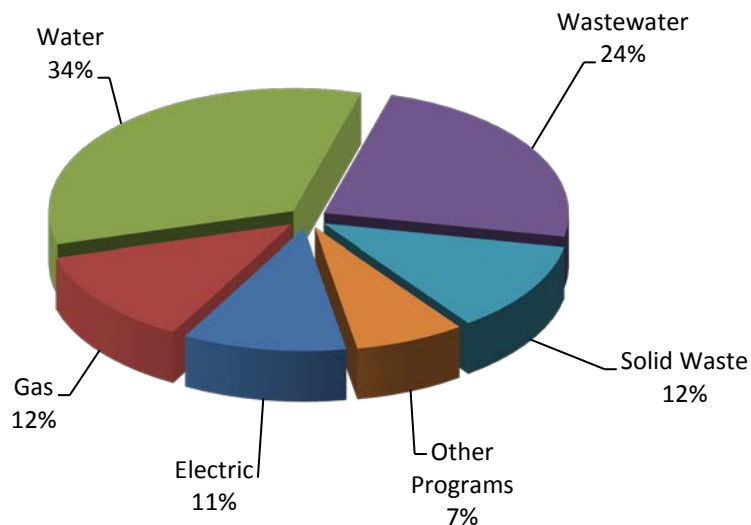
Business-type Activities

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

Revenues by Source – Business-type Activities



Functional Expenses – Business-type Activities



Total business-type activities program and general revenues increased by \$25 million from \$327.2 million to \$352.2 million. The business-type activities total expenses decreased by \$41.2 million from \$318.9 million to \$277.7 million. The largest decrease in expenses was primarily in the wastewater fund, and related to the post employment expense and depreciation expense.

Fund Financial Statements

The fund financial statements are presented in Exhibits A-3 through A-10 beginning on page 19 of this report. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of the City. Traditional fund financial statements are presented for Governmental Funds (Exhibits A-3 through A-6), Proprietary Funds (Exhibits A-7 through A-9), and Fiduciary Funds (Exhibit A-10).

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer-term focus, a reconciliation of the differences between the two is provided with the fund financial statements and also in Note 2 to the basic financial statements.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet support; materials and supplies; printing and graphics; property and public liability; workers' compensation and employee benefits self-insurance programs. Since the primary customers of the internal service funds are the governmental activities, the assets and liabilities of those funds are included in the governmental activities column of the government-wide statement of net position. The costs of internal service funds are allocated to the various user functions on the government-wide statement of activities. The proprietary fund financial statements are prepared on the same long-term focus as the government-wide financial statements. The enterprise funds provide the same information as the government-wide financial statements, only with more detail. The internal service funds are combined into a single column on the proprietary funds statements. Additional detail of the internal service funds can be found in the combining statements (Exhibits C-3 through C-5).

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

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

Other information – Governments have an option of including the budgetary comparisons statements for the General Fund as either part of the fund financial statements within the basic financial statements or as required supplementary information after the notes to the financial statements. The City has chosen to present the budgetary statements as required supplementary information beginning on page 84.

Fund Financial Statement Analysis

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

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

The City's governmental funds reported combined ending fund balance of \$288.6 million, a \$30.7 million decrease from the previous year. \$72.0 million of this total amount is in unassigned fund balance, available for spending in the coming year. Included in the remainder is \$193.8 million in restricted and nonspendable fund balance.

The General Fund is the chief operating fund of the City and accounts for many of the major functions of the government including general government, public safety, cultural-recreational, and community environment services. At the end of the current fiscal year, total fund balance of the General Fund was \$77.3 million, while unassigned fund balance was \$72.7 million.

Total fund balance of the City's General Fund increased by \$23.7 million during the current fiscal year from \$53.6 million to \$77.3 million. Total revenues of \$253.4 million were \$6.4 million higher than the previous year.

Proprietary Funds - The City's Enterprise Fund provides the same type of information as the government-wide financial statements, except in more detail. The total net position of the Enterprise Fund decreased by \$35 million in fiscal year 2014 from \$650.4 million (as restated) in fiscal year 2013 to \$615.4 million. The unrestricted net position of the Enterprise Fund amounted to \$178.7 million. Other factors concerning the finances of the Enterprise Fund have already been addressed in the discussion on the City's business-type activities.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison schedules are required for the General Fund and can be found in Exhibit B-3. This schedule compares the original adopted budget, the budget as amended throughout the year, and the actual expenditures prepared on a budgetary basis.

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see Note 1.f. of the notes to the financial statements for more information on budget policies). No amendments increasing the City's total adopted budget of \$1.3 billion occurred during fiscal year 2014.

General Fund revenues of \$245.4 million, on a budgetary basis, were comparable to budgeted revenues of \$253.5 million. Expenditures of \$323.0 million were also comparable to the budgeted expenditures.

ECONOMIC FACTORS

In May 2014, the City Council approved a \$1.3 billion budget, which is equal to prior year's budget. The fiscal year 2014–15 budget includes \$1.1 billion for operations and \$265.6 million for scheduled bond capital improvements.

The adopted fiscal year 2014-15 budget continues the City's fiscally conservative approach to budget development, while still providing quality services to the citizens. Rather than simply surviving budget reductions, the City has reorganized and retooled to focus on community priorities and innovative approaches. The goal has been to help Mesa grow and prosper despite a challenging national, state, and local economy.

REQUESTS FOR INFORMATION

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



Basic Financial Section

Phoenix-Mesa Gateway Airport



CITY OF MESA, ARIZONA
EXHIBIT A-1
STATEMENT OF NET POSITION
JUNE 30, 2014
(in thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Pooled Cash and Investments	\$ 259,947	\$ 27,546	\$ 287,493
Accounts Receivable, Net	25,400	29,256	54,656
Accrued Interest Receivable	548	399	947
Due from Other Governments	35,847	2,992	38,839
Inventory	5,841	-	5,841
Prepaid Costs	1,869	449	2,318
Deposits	526	45	571
Restricted Assets:			
Pooled Cash and Investments	7,818	118,596	126,414
Cash with Fiscal Agent	61,857	48,742	110,599
Cash with Trustee	10,312	2,435	12,747
Accounts Receivable	5,961	-	5,961
Due from Other Governments	68,655	-	68,655
Customer Deposits	-	3,534	3,534
Joint Venture Construction Deposits	-	4,805	4,805
Investment in Joint Ventures	125,577	217,794	343,371
Capital Assets:			
Non-Depreciable	465,264	306,828	772,092
Depreciable, Net	817,291	1,121,997	1,939,288
Total Assets	<u>1,892,713</u>	<u>1,885,418</u>	<u>3,778,131</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Refundings	4,949	19,431	24,380
Total Deferred Outflows of Resources	<u>4,949</u>	<u>19,431</u>	<u>24,380</u>
LIABILITIES			
Warrants Outstanding	3,991	-	3,991
Accounts Payable	23,015	8,204	31,219
Other Accrued Expenses	46,538	5,217	51,755
Customer and Defendant Deposits	8,099	-	8,099
Compensated Absences	507	-	507
Liabilities Payable from Restricted Assets	72,585	87,748	160,333
Noncurrent Liabilities:			
Due Within One Year	32,512	24,720	57,232
Due in More Than One Year	904,331	1,163,515	2,067,846
Total Liabilities	<u>1,091,578</u>	<u>1,289,404</u>	<u>2,380,982</u>
NET POSITION			
Net Investment in Capital Assets	866,332	393,720	1,260,052
Restricted For:			
Convention Center	-	316	316
Airport	-	8,514	8,514
Golf Courses	-	10	10
Hohokam Stadium/Fitch Complex	-	571	571
Court Projects	798	-	798
Debt Service	6,571	-	6,571
Bond Indentures	-	25,274	25,274
Public Safety	2,649	-	2,649
Grant Programs	1,445	-	1,445
Quality of Life Programs	3,704	-	3,704
Transportation Programs	44,151	-	44,151
Water, Wastewater & Solid Waste Improvements	-	3,533	3,533
Construction	-	4,805	4,805
Miscellaneous Restrictions	1,237	-	1,237
Unrestricted	(120,803)	178,702	57,899
Total Net Position	<u>\$ 806,084</u>	<u>\$ 615,445</u>	<u>\$ 1,421,529</u>

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, 2014

(in thousands)

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 103,819	\$ 9,739	\$ 296	\$ 328
Public Safety	277,614	36,472	5,894	688
Cultural-Recreational	49,275	12,614	284	80
Community Environment	125,700	2,368	23,040	19,618
Interest on Long-Term Debt	24,431	-	-	-
Total Governmental Activities	<u>580,839</u>	<u>61,193</u>	<u>29,514</u>	<u>20,714</u>
Business-type Activities:				
Electric	30,044	31,198	83	103
Gas	35,020	38,600	128	83
Water	93,871	112,003	4,313	10,135
Wastewater	65,637	66,457	4,223	6,400
Solid Waste	32,908	47,452	263	-
Airport	4,343	3,813	40	254
Golf Course	2,555	1,622	-	-
Convention Center	3,060	2,057	-	200
Hohokam Stadium/Fitch Complex	2,879	36	-	100
Cubs Stadium	6,201	174	6	56
District Cooling	1,153	1,142	-	-
Total Business-type Activities	<u>277,671</u>	<u>304,554</u>	<u>9,056</u>	<u>17,331</u>
Total Government	<u>\$ 858,510</u>	<u>\$ 365,747</u>	<u>\$ 38,570</u>	<u>\$ 38,045</u>

General Revenues:

Sales Taxes
 Property Taxes
 Occupancy Taxes
 Unrestricted Intergovernmental Revenues
 Contributions Not Restricted to Specific Programs
 Investment Income
 Miscellaneous
 Special Item - Gain on Sale of Capital Assets
 Transfers In (Out)
 Total General Revenues and Transfers

Change in Net Position

Total Net Position - As Reported
 Change in Accounting Principle
 Total Net Position - As Adjusted

Net Position - Ending

The notes to the financial statements are an integral part of this statement.

EXHIBIT A-2

(Continued)

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (93,456)	\$ -	\$ (93,456)
(234,560)	-	(234,560)
(36,297)	-	(36,297)
(80,674)	-	(80,674)
(24,431)	-	(24,431)
<u>(469,418)</u>	<u>-</u>	<u>(469,418)</u>
-	1,340	1,340
-	3,791	3,791
-	32,580	32,580
-	11,443	11,443
-	14,807	14,807
-	(236)	(236)
-	(933)	(933)
-	(803)	(803)
-	(2,743)	(2,743)
-	(5,965)	(5,965)
-	(11)	(11)
<u>-</u>	<u>53,270</u>	<u>53,270</u>
(469,418)	53,270	(416,148)
140,567	-	140,567
22,549	-	22,549
1,919	851	2,770
135,075	-	135,075
88,646	-	88,646
966	1,453	2,419
5,550	288	5,838
-	18,697	18,697
109,520	(109,520)	-
<u>504,792</u>	<u>(88,231)</u>	<u>416,561</u>
35,374	(34,961)	413
774,761	655,766	1,430,527
(4,051)	(5,360)	(9,411)
<u>770,710</u>	<u>650,406</u>	<u>1,421,116</u>
<u>\$ 806,084</u>	<u>\$ 615,445</u>	<u>\$ 1,421,529</u>

CITY OF MESA, ARIZONA
EXHIBIT A-3
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014
(in thousands)

	General Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS			
Pooled Cash and Investments	\$ 69,308	\$ 124,739	\$ 194,047
Accounts Receivable (Net of Allowances)	17,850	5,445	23,295
Accrued Interest Receivable	342	117	459
Due from Other Governments	9,050	26,792	35,842
Due from Other Funds	286	-	286
Advances to Other Funds	1,825	-	1,825
Prepaid Costs	1,131	23	1,154
Deposits	205	321	526
Restricted Assets:			
Pooled Cash and Investments	-	7,818	7,818
Cash with Fiscal Agent	-	61,857	61,857
Cash with Trustee	-	10,312	10,312
Accounts Receivable	-	5,961	5,961
Due from Other Governments	-	68,655	68,655
Total Assets	<u>\$ 99,997</u>	<u>\$ 312,040</u>	<u>\$ 412,037</u>
LIABILITIES			
Warrants Outstanding	\$ 3,451	\$ 8	\$ 3,459
Accounts Payable	14,740	6,175	20,915
Other Accrued Liabilities	1,118	8,143	9,261
Due to Other Funds	-	286	286
Advances from Other Funds	-	1,825	1,825
Customer and Defendant Deposits	1,975	6,124	8,099
Compensated Absences	507	-	507
Payable From Restricted Assets:			
Accrued Bond Interest Payable	-	11,731	11,731
Unearned Revenue	895	9,756	10,651
Matured Bonds Payable	-	50,203	50,203
Total Liabilities	<u>22,686</u>	<u>94,251</u>	<u>116,937</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	6,453	6,453
Total Deferred Inflows of Resources	<u>-</u>	<u>6,453</u>	<u>6,453</u>
FUND BALANCES			
Nonspendable	2,956	23	2,979
Restricted	188	190,609	190,797
Committed	1,484	21,379	22,863
Unassigned	72,683	(675)	72,008
Total Fund Balances	<u>77,311</u>	<u>211,336</u>	<u>288,647</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 99,997</u>	<u>\$ 312,040</u>	<u>\$ 412,037</u>

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

CITY OF MESA, ARIZONA

EXHIBIT A-4RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

(in thousands)

Fund Balances - total governmental funds	\$ 288,647
Amounts reported for governmental activities in the statement of net position are different because (also see Note 2 to the basic financial statements):	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.	1,280,897
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.	125,577
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	(927,464)
Deferred outflows of resources from the refunding of bonds	4,949
Unavailable revenue for long-term rehabilitation loans, property taxes, amounts due from tenants, and special assessments is shown on the governmental funds, but is not unavailable on the statement of net position.	6,453
Internal service funds are used by management to charge the costs of certain activities to individual funds.	<u>27,025</u>
Net position of the governmental activities - statement of net position	<u><u>\$ 806,084</u></u>

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, 2014

(in thousands)

	General Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES			
Sales Taxes	\$ 95,177	\$ 45,390	\$ 140,567
Property Taxes	-	22,500	22,500
Occupancy Taxes	25	1,894	1,919
Special Assessments	-	1,062	1,062
Licenses and Permits	15,356	3,441	18,797
Intergovernmental	112,304	72,999	185,303
Charges for Services	20,829	11,277	32,106
Fines and Forfeitures	8,012	1,878	9,890
Investment Income	131	458	589
Contributions	65	1,147	1,212
Miscellaneous Revenue	1,498	3,026	4,524
Total Revenues	<u>253,397</u>	<u>165,072</u>	<u>418,469</u>
EXPENDITURES			
Current:			
General Government	69,314	5,763	75,077
Public Safety	205,433	25,931	231,364
Cultural-Recreational	32,495	6,293	38,788
Community Environment	8,050	48,523	56,573
Debt Service:			
Principal	-	71,015	71,015
Interest on Bonds	-	18,907	18,907
Interest on Leases	-	7	7
Interest on Notes	-	4,790	4,790
Cost of Issuance	-	727	727
Capital Outlay	7,853	94,804	102,657
Total Expenditures	<u>323,145</u>	<u>276,760</u>	<u>599,905</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(69,748)</u>	<u>(111,688)</u>	<u>(181,436)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	109,520	32,389	141,909
Transfers Out	(16,080)	(16,309)	(32,389)
Face Amount of Bonds Issued	-	40,800	40,800
Premium on Issuance of Bonds	-	430	430
Total Other Financing Sources (Uses)	<u>93,440</u>	<u>57,310</u>	<u>150,750</u>
Net Change in Fund Balances	23,692	(54,378)	(30,686)
Fund Balance - Beginning	<u>53,619</u>	<u>265,714</u>	<u>319,333</u>
Fund Balances - Ending	<u>\$ 77,311</u>	<u>\$ 211,336</u>	<u>\$ 288,647</u>

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, 2014
(in thousands)

Net change in fund balances - total governmental funds	\$ (30,686)
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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.	(535)
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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.	(31,529)
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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 depreciation (\$78,992) exceeded capital outlay (\$72,325) in the current period.	(6,667)
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The net effect of miscellaneous transactions involving capital assets (e.g., donations, transfers and disposals) is to decrease net position.	27,608
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Change in equity in Joint Venture	41,202
-----------------------------------	--------

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 position.	30,215
--	--------

Governmental funds report the effect of 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.	1,703
--	-------

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.	4,063
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Change in net position of the governmental activities - statement of activities	<u>\$ 35,374</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
EXHIBIT A-7
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014
(in thousands)

ASSETS

Current Assets:

Pooled Cash and Investments	\$ 27,546	\$ 65,900
Accounts Receivable (Net of Allowances)	29,256	2,105
Accrued Interest Receivable	399	89
Due from Other Governments	2,992	5
Inventory	-	5,841
Prepaid Costs	449	715
Deposits	45	-

Restricted Assets:

Pooled Cash and Investments	27,050	-
Cash with Fiscal Agents	48,742	-
Cash with Trustees	2,435	-
Customer Deposits	3,534	-
Joint Venture Construction Deposits	4,805	-
Total Current Assets	<u>147,253</u>	<u>74,655</u>

Noncurrent Assets:

Restricted Pooled Cash and Investments:

Impact & Development Fees	3,533	-
Bond Replacement, Extensions and Reserves	25,274	-
Capital Projects	62,739	-
Investment in Joint Ventures	217,794	-

Capital Assets:

Land	54,167	-
Water Rights	17,560	-
Collections of Art	106	-
Buildings	87,735	2,061
Other Improvements	125,523	430
Machinery and Equipment	73,558	6,489
Intangibles	27,753	3
Infrastructure	1,587,173	32
Construction in Progress	234,995	252
Less Accumulated Depreciation and Amortization	<u>(779,745)</u>	<u>(7,609)</u>
Total Capital Assets, Net	<u>1,428,825</u>	<u>1,658</u>

Total Noncurrent Assets	<u>1,738,165</u>	<u>1,658</u>
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Total Assets	<u>1,885,418</u>	<u>76,313</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts on Refundings	<u>19,431</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>19,431</u>	<u>-</u>

Total Assets and Deferred Outflows of Resources	<u>\$ 1,904,849</u>	<u>\$ 76,313</u>
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(Continued)

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

CITY OF MESA, ARIZONA
EXHIBIT A-7 (Continued)
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014
(in thousands)

LIABILITIES

Current Liabilities-Payable From Current Assets:

Warrants Outstanding	\$ -	\$ 532
Accounts Payable	8,204	2,100
Other Accrued Expenses	5,217	37,277

Current Liabilities-Payable From Restricted Assets:

Bond Replacement, Extensions and Reserves-Accounts Payable	698	-
Capital Projects-Accounts Payable	7,723	-
Accrued Bond Interest Payable	25,910	-
Matured Bonds Payable	22,832	-
Customer Deposits and Prepayments	30,585	-

Current Portion of Long-Term Liabilities:

Current Portion of Revenue Bonds Payable	23,860	-
Current Portion of General Obligation Bonds Payable	131	-
Current Portion of Notes Payable	128	-
Current Portion of Compensated Absences	601	1
Total Current Liabilities	125,889	39,910

Long-Term Liabilities:

Revenue Bonds Payable	968,135	-
General Obligation Bonds Payable	474	-
Excise Tax Obligations	94,060	-
Notes Payable	2,116	-
Unamortized Bond Premium	25,329	-
Compensated Absences	3,306	632
Post Employment Benefits	70,095	8,746
Total Long-Term Liabilities	1,163,515	9,378

Total Liabilities	1,289,404	49,288
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NET POSITION

Net Investment in Capital Assets	393,720	1,658
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Restricted For:

Convention Center	316	-
Airport	8,514	-
Golf Courses	10	-
Hohokam Stadium\Fitch Complex	571	-
Bond Indentures	25,274	-
Water, Wastewater & Solid Waste Improvements	3,533	-
Construction	4,805	-

Unrestricted	178,702	25,367
Total Net Position	\$ 615,445	\$ 27,025

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 NET POSITION

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Operating Revenues:		
Electric Sales Pledged as Security for Revenue Bonds	\$ 31,198	\$ -
Gas Sales Pledged as Security for Revenue Bonds	38,600	-
Water Sales Pledged as Security for Revenue Bonds	112,003	-
Wastewater Charges Pledged as Security for Revenue Bonds	66,457	-
Solid Waste Charges Pledged as Security for Revenue Bonds	47,452	-
Airport Fees	3,813	-
Golf Course Fees	1,622	-
Convention Center Fees	2,057	-
Hohokam Stadium/Fitch Complex Fees	36	-
Cubs Stadium Fees	174	-
District Cooling Charges	1,142	-
Charges For Services	-	28,299
Self-Insurance Contributions	-	70,792
Other Revenue	-	948
Total Operating Revenues	<u>304,554</u>	<u>100,039</u>
Operating Expenses:		
Electric	22,983	-
Gas	26,778	-
Water	40,997	-
Wastewater	21,689	-
Solid Waste	32,431	-
Airport	2,410	-
Golf Course	2,052	-
Convention Center	2,825	-
Hohokam Stadium/Fitch Complex	1,992	-
Cubs Stadium	970	-
District Cooling	706	-
Warehouse, Maintenance & Services	-	29,495
Self-Insurance	-	66,631
Total Operating Expenses	<u>155,833</u>	<u>96,126</u>
Operating Income (Loss) Before Depreciation and Amortization	148,721	3,913
Depreciation and Amortization	<u>(63,914)</u>	<u>(330)</u>
Operating Income (Loss)	<u>84,807</u>	<u>3,583</u>

(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 NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(in thousands)

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Nonoperating Revenues (Expenses):		
Investment Income Pledged as Security for Revenue Bonds	1,325	-
Investment Income Unpledged	128	377
Intergovernmental	2,284	-
Interest Expense:		
Bonds	(44,787)	-
Notes Payable and Other Long-Term Obligations	(16)	-
Bond Administrative Costs	(36)	-
Net Loss from Joint Venture	(12,676)	-
Utility Development Fees	7,026	-
Bond Issuance Costs	(409)	-
Occupancy Tax	851	-
Miscellaneous Revenue	288	-
Total Nonoperating Revenues (Expenses)	<u>(46,022)</u>	<u>377</u>
Income before Transfers and Capital Contributions	38,785	3,960
Capital Contributions	17,077	93
Transfers Out	(109,520)	-
Special Item - Gain on Sale of Capital Assets	<u>18,697</u>	<u>6</u>
Change in Net Position	(34,961)	4,059
Total Net Position - As Reported	655,766	22,966
Change in Accounting Principle	<u>(5,360)</u>	<u>-</u>
Total Net Position - As Adjusted	<u>650,406</u>	<u>22,966</u>
Total Net Position - Ending	<u>\$ 615,445</u>	<u>\$ 27,025</u>

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, 2014

(in thousands)

	Business-type Activities Enterprise Fund	Governmental Activities Internal Service Funds
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 311,991	\$ -
Cash Received from Users	-	99,829
Cash Payments to Suppliers	(95,112)	(86,422)
Cash Payments to Employees	(49,063)	(10,647)
Net Cash Provided By Operating Activities	167,816	2,760
Cash Flows From Noncapital Financing Activities:		
Intergovernmental	4,761	-
Transient Occupancy Tax	851	-
Other Non-Operating Expense	282	-
Transfers Out to Other Funds	(109,520)	-
Net Cash Provided By (Used For) Noncapital Financing Activities	(103,626)	-
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Bond Sales	36,643	-
Acquisition and Construction of Capital Assets	(130,861)	(58)
Proceeds from Sale of Capital Assets	24,867	-
Principal Paid on Bonds, Leases and Notes Maturities	(22,591)	-
Interest Paid on Bonds, Leases and Notes	(44,316)	-
Contributions from Other Governments	-	93
Developer Contributions	7,617	-
Net Cash Used For Capital and Related Financing Activities	(128,641)	35
Cash Flows From Investing Activities:		
Interest Received on Investments	1,385	355
Net Cash Provided By Investing Activities	1,385	355
Net Change in Pooled Cash and Investments	(63,066)	3,150
Total Cash and Investments at Beginning of Year	260,385	62,750
Total Cash and Investments at End of Year	\$ 197,319	\$ 65,900

(Continued)

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, 2014
(in thousands)

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	\$ 84,807	\$ 3,583
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	63,914	330
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	3,071	(211)
Increase in Inventory	-	268
Increase in Deposits and Prepaid Costs	4,018	(144)
Increase in Accounts Payable	7,355	(127)
Increase in Other Accrued Expenses	4,651	(939)
Total Adjustments	83,009	(823)
Net Cash Provided By Operating Activities	\$ 167,816	\$ 2,760
Noncash Transactions Affecting Financial Position:		
Contributions of Capital Assets	\$ 16,490	
Gain on Disposal of Capital Assets	18,697	
Amortization of Bond Premium	(3,282)	
Amortization of Deferred Amounts on Refunding	2,393	

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, 2014
 (in thousands)

	Payroll Agency
ASSETS	
Pooled Cash and Investments	\$ 14,061
Total Assets	<u>\$ 14,061</u>
LIABILITIES	
Accounts Payable	\$ 1,719
Accrued Payroll Payable	12,342
Total Liabilities	<u>\$ 14,061</u>

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

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 454,981 within an area of approximately 141 square miles. The City’s charter was adopted August 18, 1967 providing for a Council-Manager form of government. The City provides a full range of municipal services including police and fire protection, parks and recreation, library, transportation, health and certain social services and general administration. In addition, the City owns and operates an enterprise whose activities include operations of electricity, gas, water, wastewater, solid waste, airport, golf courses, convention center, stadium and district cooling.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a. **Reporting Entity**

The accompanying financial statements include the City and its blended component units, the City of Mesa Municipal Development Corporation and Community Facilities District, collectively referred to as “the financial reporting entity”. In accordance with GASB No. 14, and as amended by GASB 61, the component units discussed below have been included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

City of Mesa Municipal Development Corporation (“Corporation”) is a nonprofit corporation that is organized under the laws of the State of Arizona to assist the City in the acquisition and financing of municipal projects and facilities. The Corporation is governed by a board of directors which is responsible for approving the Corporation’s bond sales. Bond sales must also be approved by the City Council. Although it is legally separate from the City, the Corporation is reported as if it is part of the primary government because its sole purpose is to finance the acquisition and or construction of public facilities for the City. Separate financial statements for the corporation are not prepared.

Community Facilities District (“District”) is a municipal corporation political subdivision of the State of Arizona that is organized to provide a vehicle for financing certain public infrastructure that is necessary for development of the land within the boundaries of the District. The City Council serves as the board of directors of the District and the City Manager of the City currently serves as the District Manager. Although it is legally separate from the City, the District is reported as if it is part of the primary government because the District’s governing body is substantively the same as the governing body of the City and management of the City has operational responsibility for the District. Separate financial statements for the District are not prepared.

b. **Jointly Governed Organizations**

Phoenix – Mesa Gateway Airport Authority (“PMGAA”) is a nonprofit corporation established and funded by the City, the City of Phoenix, and Towns of Gilbert and Queen Creek, and the Gila River Indian Community. The purpose of the entity is the redevelopment of Williams Air Force Base that was closed in September 1993 to become PMGAA. The Board of Directors consists of the mayors for the

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

respective municipalities and the governor of the tribal community. The City contributed \$1.7 million to the PMGAA operating and capital budget during this fiscal year.

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

Arizona Municipal Water Users Association (“AMWUA”) is a nonprofit corporation established and funded by cities in Maricopa County for the development of an urban water policy and to represent the cities’ interests before the Arizona legislature. In addition, AMWUA contracts with the cities jointly using a multi-city sanitary sewer system to perform certain accounting, administrative and support services.

c. **Basic Financial Statements**

Government-wide Financial Statements: The government-wide financial statements (the statement of net position 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 position reports all financial and capital resources of the City, excluding fiduciary funds. It is presented in a format of assets plus deferred outflows of resources less liabilities, plus deferred inflows of resources, equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be presented in three components: net investment in capital assets; restricted and unrestricted. Net investment in capital assets 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 position 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. Unrestricted net position are those not otherwise classified as restricted, and 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 position is available.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functional activities and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific functional activity (General Government, Public Safety, Cultural-Recreational, etc.) or segment. Expenses reported for the various functional activities or segments include indirect expenses, such as overhead costs. Interest on long-term debt is not allocated to the various functions in the governmental activities. Program revenues include charges to customers or

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

applicants who directly benefit from goods, services or privileges provided by a given function or segment. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, including special assessments. Taxes and other items not properly included as program revenues are reported as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

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

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

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

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

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 unearned 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 unavailable revenue.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 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.

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.

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

e. **Fund Accounting**

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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 City reports the following non-major governmental funds:

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

Six 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.

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

f. **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.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The legally adopted budget consists of all funds except the Agency Fund. Capital Projects are budgeted as one item and governmental debt service expenditures are budgeted in the Special Revenue Funds or Debt Service Fund. A budget schedule for the General Fund is presented in the Required Supplementary Information Section, and the other funds are 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. Budgeted amounts are as originally adopted by the City Council on June 17, 2013.

g. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, liabilities, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

h. **Pooled Cash and Investments**

The City maintains an invested pool that is available for use by all City funds. Each funds portion of this pool is reported on the financial statements as “pooled cash and investments”. A single master custodian holds all assets of the invested pool. In addition, certain cash deposits and investments are also held separately by various City funds in separate accounts.

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 are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

i. **Inventory**

Inventories consist of expendable supplies held for consumption. 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.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

j. **Capital Assets**

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

Capital assets 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.

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	5-50 Years
Machinery and Equipment	3-30 Years
Intangibles	6-15 Years
Infrastructure	5-50 Years

Gain or loss is recognized when assets are retired from service or are otherwise disposed of. Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation) or net realizable value, if lower, as of the date of the transfer.

k. **Compensated Absences**

Vacation, compensatory time and sick leave benefits are accrued as liabilities as employees earn the benefits to the extent that they meet both of the following criteria: 1) the City's obligation is attributable to employees' services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash.

For governmental funds a liability for vacation, compensatory time and sick leave are reported only if they have matured, for example, as a result of employee resignations and retirements. The entire amount of accumulated unpaid vested vacation pay, compensatory time and an estimated amount for sick leave related to the proprietary funds is included as a liability in the fund financial statements. The remaining long-term balances related to governmental activities are included in the government-wide financial statement.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

l. **Reserve for Loss and Loss Adjustment Expenses**

The Property and Public Liability, Workers' Compensation and Employee Benefits Internal Service Funds establish claim liabilities based on actuarial estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expenses in the periods in which they are made.

m. **Long Term Obligations**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position.

Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

n. **Fund Balance Policies**

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

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

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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

o. **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.

p. **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, 2014 and are made in accordance with State Statutes.

q. **Property Taxes**

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

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

In fiscal year 2013-2014, current property tax collections were \$21,755,083 or 98.45% of the tax levy, and were recognized as revenue when received. At fiscal year end, the delinquent property tax is recorded as a receivable. Revenue is recognized for those payments expected to be collected within 60 days and the remaining balance is reported as unavailable revenue. The receivable at June 30, 2014 was \$611,487 of which \$298,841 was recorded as revenue and \$312,646 as unavailable revenue.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

r. **New Accounting Pronouncements**

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City has implemented this statement in fiscal year 2014, see Note 18 for the current year effect of implementing GASB Statement No. 65.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, improves accounting and financial reporting for pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City will implement this Statement in fiscal year 2015.

GASB Statement No. 69, Government Combinations and Disposals of Government Operations, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2013. The City will implement this Statement in fiscal year 2015.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for fiscal periods beginning after June 15, 2013. The City implemented for fiscal year 2014 with no impact to this Statement.

Although expected to be significant, the City has not fully determined the effects that implementation of Statement No. 68 will have on the City's financial statements. The City has also not fully determined the effects that implementation of Statement No. 69 will have on the City's financial statements.

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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation of the Governmental Funds Balance Sheet to the government-wide Statement of Net Position
 (in thousands):

	Total Governmental Funds	Long-term Assets/ Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Position Total
Assets					
Pooled Cash and Investments	\$ 194,047	\$ -	\$ 65,900	\$ -	\$ 259,947
Account and Misc Receivables, Net	23,295	-	2,105	-	25,400
Accrued Interest Receivable	459	-	89	-	548
Due from Other Governments	35,842	-	5	-	35,847
Due from Other Funds	286	-	-	(286)	-
Advances from Other Funds	1,825	-	-	(1,825)	-
Inventory	-	-	5,841	-	5,841
Prepaid Costs	1,154	-	715	-	1,869
Deposits	526	-	-	-	526
Restricted Assets:		-	-	-	-
Pooled Cash and Investments	7,818	-	-	-	7,818
Cash with Fiscal Agent	61,857	-	-	-	61,857
Cash with Trustee	10,312	-	-	-	10,312
Accounts Receivable	5,961	-	-	-	5,961
Due from Other Governments	68,655	-	-	-	68,655
Investment in Joint Ventures	-	125,577	-	-	125,577
Capital Assets	-	1,280,897	1,658	-	1,282,555
Total Assets	<u>412,037</u>	<u>1,406,474</u>	<u>76,313</u>	<u>(2,111)</u>	<u>1,892,713</u>
Deferred Outflows of Resources					
Deferred amounts on refundings	-	4,949	-	-	4,949
Total Deferred Outflows of Resources	<u>-</u>	<u>4,949</u>	<u>-</u>	<u>-</u>	<u>4,949</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 412,037</u>	<u>\$ 1,411,423</u>	<u>\$ 76,313</u>	<u>\$ (2,111)</u>	<u>\$ 1,897,662</u>
Liabilities					
Warrants Outstanding	\$ 3,459	\$ -	\$ 532	\$ -	\$ 3,991
Accounts Payable	20,915	-	2,100	-	23,015
Other Accrued Expenses	9,261	-	37,277	-	46,538
Due To Other Funds	286	-	-	(286)	-
Advances to Other Funds	1,825	-	-	(1,825)	-
Customer and Defendant Deposits	8,099	-	-	-	8,099
Compensated Absences	507	-	-	-	507
Restricted Bond Interest Payable	11,731	-	-	-	11,731
Restricted Unearned Revenue	10,651	-	-	-	10,651
Matured Bonds Payable	50,203	-	-	-	50,203
Long-term Liabilities	-	927,464	9,379	-	936,843
Total Liabilities	<u>116,937</u>	<u>927,464</u>	<u>49,288</u>	<u>(2,111)</u>	<u>1,091,578</u>
Deferred Inflows of Resources					
Unavailable Revenue	6,453	(6,453)	-	-	-
Total Deferred Inflows of Resources	<u>6,453</u>	<u>(6,453)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance/Net Position					
Total Fund Balance/Net Position	<u>288,647</u>	<u>490,412</u>	<u>27,025</u>	<u>-</u>	<u>806,084</u>
Total Liabilities and Fund Balance/Net Position	<u>\$ 412,037</u>	<u>\$ 1,411,423</u>	<u>\$ 76,313</u>	<u>\$ (2,111)</u>	<u>\$ 1,897,662</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Costs of capital assets	\$2,026,310
Accumulated depreciation	<u>(745,413)</u>
	<u>\$1,280,897</u>

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 position for the City as a whole.

Investment in joint ventures	<u>\$ 125,577</u>
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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	\$ 461,216
Notes payable	77,835
Capital leases	72
Compensated absences	25,462
Post-employment benefits	344,159
Unamortized bond premiums	<u>18,720</u>
	<u>\$ 927,464</u>

For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources.

Deferred charge on refunding	<u>\$ 4,949</u>
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Unavailable revenues shown on the governmental fund statements are not deferred on the statement of net position.

Unavailable property tax revenues	\$ 313
Unavailable special assessment revenue	5,886
Unavailable rehabilitation loan revenue	73
Amounts due from tenants not yet available	<u>181</u>
	<u>\$ 6,453</u>

- (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 position, but are not included on the governmental funds balance sheet.

Total	<u>\$ 27,025</u>
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(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

	Total Governmental Funds	Long-term Revenues/ Expenses(1)	Capital - Related Items(2)	Internal Service Funds(3)	Long-term Debt (4)	Eliminations (5)	Statement of Activities
Revenues and Other Sources							
Revenues:							
Sales Taxes	\$140,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140,567
Property Taxes	22,500	49	-	-	-	-	22,549
Occupancy Taxes	1,919	-	-	-	-	-	1,919
Special Assessments	1,062	(662)	-	-	-	-	400
Licenses and Permits	18,797	-	-	-	-	-	18,797
Intergovernmental	185,303	-	-	-	-	-	185,303
Charges for Services	32,106	-	-	-	-	-	32,106
Fines and Forfeitures	9,890	-	-	-	-	-	9,890
Investment Income	589	-	-	377	-	-	966
Contributions	1,212	-	68,855	18,579	-	-	88,646
Miscellaneous	4,524	78	-	948	-	-	5,550
Other Sources:							-
Transfers In	141,909	-	-	-	-	(32,389)	109,520
Face Amount of Bonds Issued	40,800	-	-	-	(40,800)	-	-
Premiums on Issuance of Bonds	430	-	-	-	(430)	-	-
Total Revenue and Other Sources	<u>\$ 601,608</u>	<u>\$ (535)</u>	<u>\$ 68,855</u>	<u>\$ 19,904</u>	<u>\$ (41,230)</u>	<u>\$ (32,389)</u>	<u>\$ 616,213</u>
Expenditures/Expenses and Other Financing Uses							
Expenditures/Expenses:							
Current:							
General Government	\$75,077	\$7,308	\$14,384	\$7,071	\$ (21)	\$ -	\$ 103,819
Public Safety	231,364	20,518	20,540	5,932	(740)	-	277,614
Cultural-Recreational	38,788	1,645	7,017	2,147	(322)	-	49,275
Community Environment	56,573	2,058	67,428	691	(1,050)	-	125,700
Debt Service:							
Principal	71,015	-	-	-	(71,015)	-	-
Interest on Bonds	18,907	-	-	-	-	-	18,907
Interest on Leases	7	-	-	-	-	-	7
Interest on Notes	4,790	-	-	-	-	-	4,790
Cost of Issuance	727	-	-	-	-	-	727
Capital Outlay	102,657	-	(102,657)	-	-	-	-
Other Financing Uses:							
Transfers Out	32,389	-	-	-	-	(32,389)	-
Total Expenditures/Expenses & Other Financing Uses	<u>632,294</u>	<u>31,529</u>	<u>6,712</u>	<u>15,841</u>	<u>(73,148)</u>	<u>(32,389)</u>	<u>580,839</u>
Net Change for the Year	<u>\$ (30,686)</u>	<u>\$ (32,064)</u>	<u>\$ 62,143</u>	<u>\$ 4,063</u>	<u>\$ 31,918</u>	<u>\$ -</u>	<u>\$ 35,374</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Property tax revenue	\$ 49
Special assessment revenue	(662)
Rehab Loan Program & Tenant Revenue	<u>78</u>
Total	<u>\$ (535)</u>

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	\$ (3,093)
Accrual of post-employment benefits	<u>(28,436)</u>
Total	<u>\$ (31,529)</u>

- (2) When capital assets that are to be used in the governmental activities are purchased or constructed 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 position decreases by the amount of depreciation expense charged for the year.

Capital outlay for capital assets	\$ 72,325
Depreciation expense	<u>(78,992)</u>
Total	<u>\$ (6,667)</u>

The net effect of miscellaneous transactions involving capital assets (donations, transfers and disposals) and investment in joint venture activity is to increase net position.

Donated capital	\$ 27,653
Change in equity interest for joint venture	41,202
Loss on disposal of capital assets	<u>(45)</u>
Total	<u>\$ 68,810</u>

- (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	\$19,904
Expenditures and other uses	<u>(15,841)</u>
Change in net position	<u>\$ 4,063</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

New debt issued (including refunded debt):	
General Obligation bond proceeds	\$ (37,550)
Community Facility District Bonds	(3,250)
Principal repayments	<u>71,015</u>
Total	<u>\$ 30,215</u>

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

Amortization of deferred refunding amounts	\$ (1,259)
Amortization of bond premiums	3,392
Premiums on bonds	<u>(430)</u>
Total	<u>\$ 1,703</u>

- (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	\$ (32,389)
Transfers in	<u>32,389</u>
Total	<u>\$ -</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

3. FUND BALANCE

As of June 30, 2014 the fund balance details by classification are listed below (in thousands):

Fund Balances:	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid Costs	\$ 1,131	\$ 23	\$ 1,154
Advances to Other Funds	1,825	-	1,825
Nonspendable Sub-total	2,956	23	2,979
Restricted:			
Debt Service	-	78,208	78,208
Capital Projects	-	58,843	58,843
Quality of Life Projects	-	3,704	3,704
Streets Projects	-	44,152	44,152
Public Safety	-	2,649	2,649
Cultural-Recreational	184	346	530
Community Environment	4	1,184	1,188
Court	-	798	798
Vehicle Replacement	-	725	725
Restricted Sub-total	188	190,609	190,797
Committed To:			
Debt Service	-	370	370
Capital Projects	-	6,631	6,631
Cultural-Recreational	-	1,752	1,752
Public Safety	-	3,396	3,396
Building Safety	1,347	-	1,347
Community Environment	137	6,499	6,636
Vehicle Replacement	-	2,731	2,731
Committed To Sub-total	1,484	21,379	22,863
Unassigned	72,683	(675)	72,008
Total Fund Balances	<u>\$ 77,311</u>	<u>\$ 211,336</u>	<u>\$ 288,647</u>

The Mayor and Council has established a minimum fund balance policy for the General Fund of eight to ten percent of budgeted expenditures. The fund balance in the General Fund as of June 30, 2014 as reported in Exhibit B-3 is 23% of General Fund expenditures budgeted for fiscal year 2014-2015.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

4. POOLED CASH AND INVESTMENTS

At year-end, City cash totaled \$5,115,925 which included \$260,065 of petty cash. The carrying amount of the City's deposits was \$4,855,860 and the bank balance was \$1,367,744. The entire balance was covered by federal depository insurance. The difference of \$3,488,116 represents deposits in transit and other reconciling items.

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

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

Credit Risk. The City's Policy is consistent with the City Charter which authorizes the investment of City funds in accordance with Arizona Revised Statute §35-313. These investments include obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool offer four investment pools to participate in which are overseen according to Arizona State Statute by the State Board of Deposit. The City of Mesa participates in State Treasurer Investment Pools 7 and 700. Pool 7 is a short-term fund and Pool 700 is a medium-term fund; both funds invest only in products backed by the full faith and credit of the United States Government. At June 30, 2014 Pool 7 had a Net Asset Value of \$1 per share and Pool 700 had a Floating Net Asset Value of \$1.007 per share. The Pools carried weighted average credit ratings of AAA and AA+ respectively.

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

The City's investments at June 30, 2014 are as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				<u>Concentration of Credit Risk %</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-2</u>	<u>More than 2</u>	
U.S. Treasuries	\$ 240,874	\$ 12,976	\$ 128,263	\$ 99,635	71.57 %
U.S. Agencies:					
Federal Home Loan Bank	25,015	6,065	12,907	6,043	7.43
Federal Home Loan Mortgage Corp.	15,180	8,675	6,505		4.51
Federal National Mortgage Assn	44,604	4,107	31,112	9,385	13.25
Federal Farm Credit Bank	7,976	-	7,976	-	2.37
City of Mesa Special Improvement					
District Bonds	2,623	343	359	1,921	0.78
JP Morgan MMF	277	277	-	-	0.08
Total	<u>\$ 336,549</u>	<u>\$ 32,443</u>	<u>\$ 187,122</u>	<u>\$ 116,984</u>	<u>100.00 %</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Total Pooled City Cash and Investments at fair value are as follows (in thousands):

Cash on Hand	\$ 260
Carrying Amount of City Deposits	4,856
Investments in Local Govt Invest Pool	38,690
Repurchase Agreement	47,613
Cash with Trustee (1)	12,747
Cash with Fiscal Agent (2)	110,599
Long-Term Investments	<u>336,549</u>
Pooled Cash and Investments	551,314
Less: Cash in Agency Fund	<u>(14,061)</u>
Total City Pooled Cash and Investments	<u>\$ 537,253</u>

(1) Represents bond and note proceeds held with trustee in compliance with bond/note agreements. Proceeds are invested in the Local Govt Investment Pool and are used by the City for authorized capital projects.

(2) Represents cash sent by the City to fiscal agents on June 30, 2014 for debt service payments due to bondholders on July 1, 2014.

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 2013-2014 of \$698,706. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

5. 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 (in thousands):

Fund	Receivables	Allowance	Net
Governmental Activities:			
General Fund:			
Taxes	\$ 11,005	\$ (2,503)	\$ 8,502
Courts	4,650	-	4,650
Other Customers	6,108	(1,410)	4,698
Due from Other Governments:			
State Shared Revenues	5,465	-	5,465
Other	3,585	-	3,585
Non-Major Governmental Funds:			
Taxes	3,592	-	3,592
Other Customers	1,853	-	1,853
Restricted-Spec. Assessments	5,886	-	5,886
Restricted-Other	75	-	75
Restricted-Property Taxes	611	-	611
Restricted-Due from Other Governments	68,044	-	68,044
Due from Other Governments	26,792	-	26,792
Internal Service Funds			
Customers	2,105	-	2,105
Due from Other Governments	5	-	5
Total Governmental Activities	<u>\$ 139,776</u>	<u>\$ (3,913)</u>	<u>\$ 135,863</u>
Business-Type Activities:			
Utility Customers	\$ 26,878	\$ (1,102)	\$ 25,776
Other Customers	3,976	(496)	3,480
Due from Other Governments	2,992	-	2,992
Total Business-type Activities	<u>\$ 33,846</u>	<u>\$ (1,598)</u>	<u>\$ 32,248</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Additionally, governmental funds record unearned revenue when resources have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the governmental funds were as follows (in thousands):

<u>Unearned Revenue</u>	<u>General Fund</u>	<u>Non-Major Funds</u>
Mesa Arts Center advanced ticket sales	\$ 770	\$ 37
Grants received prior to meeting all eligibility requirements	-	1,900
Amounts paid in advance	125	7,819
	<u>\$ 895</u>	<u>\$ 9,756</u>

<u>Unavailable Revenue</u>	<u>Non-Major Funds</u>
Rehabilitation Revolving Loans not yet due	\$ 73
Amounts due from tenants not yet available	181
Delinquent Property Taxes	313
Special Assessments not yet due	5,886
	<u>\$ 6,453</u>

Unbilled Accounts Receivable

Unbilled utility service receivables are recorded in the year in which the services are provided. At June 30, 2014, unbilled utility service receivables are recorded in the Enterprise Fund as follows (in thousands):

Electric	\$ 1,245
Gas	1,120
Water	5,103
Wastewater	2,493
Solid Waste	1,776
	<u>\$ 11,737</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following interfund activities are included in the fund financial statements at June 30, 2014 (in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 286	\$ -
Non-major Governmental Funds	-	286
Total Governmental Funds	<u>\$ 286</u>	<u>\$ 286</u>

The interfund balances at June 30, 2014 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2014 are expected to be repaid within one year.

The following advances are included in the fund financial statements at June 30, 2014 (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 1,825	\$ -
Non-major Governmental Funds	-	1,825
Total Governmental Funds	<u>\$ 1,825</u>	<u>\$ 1,825</u>

The advances at June 30, 2014 are long-term loans to the Development Impact Fees fund to cover expenses which exceeded revenues received. The advances outstanding at June 30, 2014 are not expected to be repaid within one year.

The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2014 (in thousands):

Fund	Transfers Out	Transfers In
Governmental Funds:		
General Fund	\$ 16,080	\$ 109,520
Non-major Governmental Funds	16,309	32,389
Total Governmental Funds	32,389	141,909
Proprietary Funds:		
Enterprise Fund	109,520	-
Total	<u>\$ 141,909</u>	<u>\$ 141,909</u>

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Transfers from business-type activities to governmental activities on the government-wide statement of activities include a \$90,000,000 operational subsidy from the Enterprise Fund to the General Fund. The remaining interfund transfers generally fall within one of the three following categories: 1) debt service payments made from a debt service fund but funded from an operating fund; 2) subsidy transfers; 3) open new funds and/or close old funds.

7. CAPITAL ASSETS

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2014 follows (in thousands):

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 278,120	\$ 19,278	\$ -	\$ 297,398
Infrastructure	22	3,270	-	3,292
Construction-in-Progress	168,373	77,304	(81,103)	164,574
Total Non-depreciable Assets	<u>446,515</u>	<u>99,852</u>	<u>(81,103)</u>	<u>465,264</u>
Depreciable Assets:				
Buildings	289,794	16,551	(90)	306,255
Other Improvements	142,156	16,427	(1,642)	156,941
Machinery & Equipment	164,640	9,273	(6,516)	167,397
Intangibles	13,547	-	(36)	13,511
Infrastructure	887,028	41,728	(2,547)	926,209
Total Depreciable Assets	<u>1,497,165</u>	<u>83,979</u>	<u>(10,831)</u>	<u>1,570,313</u>
Less Accumulated Depreciation for:				
Buildings	(74,494)	(8,663)	80	(83,077)
Other Improvements	(82,608)	(8,219)	1,451	(89,376)
Machinery & Equipment	(115,878)	(9,453)	6,524	(118,807)
Intangibles	(862)	(2,186)	19	(3,029)
Infrastructure	<u>(407,965)</u>	<u>(50,801)</u>	<u>33</u>	<u>(458,733)</u>
Total Accum. Depreciation	<u>(681,807)</u>	<u>(79,322)</u>	<u>8,107</u>	<u>(753,022)</u>
Total Depreciable Assets, net	<u>815,358</u>	<u>4,657</u>	<u>(2,724)</u>	<u>817,291</u>
Governmental Activities				
Capital Assets, net	<u>\$ 1,261,873</u>	<u>\$ 104,509</u>	<u>\$ (83,827)</u>	<u>\$ 1,282,555</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Depreciation and Amortization expense was charged to governmental functions in the government-wide financial statements as follows (in thousands):

General Government	\$	12,199
Public Safety		17,363
Cultural - Recreational		5,938
Community Environment		43,492
Capital assets held by the City's Internal Service funds are charged to the various functions based on their usage of the assets		330
	<u>\$</u>	<u>79,322</u>

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Business-type Activities:				
Non-depreciable Assets:				
Land	\$ 57,847	\$ 130	\$ (3,810)	\$ 54,167
Water Rights	17,560	-	-	17,560
Collections of Art	-	106	-	106
Construction-in-Progress	280,264	117,753	(163,022)	234,995
Total Non-depreciable Assets	<u>355,671</u>	<u>117,989</u>	<u>(166,832)</u>	<u>306,828</u>
Depreciable Assets:				
Buildings	52,086	36,243	(594)	87,735
Other Improvements	94,352	33,492	(2,321)	125,523
Machinery & Equipment	54,039	22,106	(2,587)	73,558
Intangibles	27,016	741	(4)	27,753
Infrastructure	1,508,988	79,999	(1,814)	1,587,173
Total Depreciable Assets	<u>1,736,481</u>	<u>172,581</u>	<u>(7,320)</u>	<u>1,901,742</u>
Less Accumulated Depreciation for:				
Buildings	(22,159)	(1,620)	299	(23,480)
Other Improvements	(42,303)	(4,239)	1,689	(44,853)
Machinery & Equipment	(36,150)	(4,748)	2,453	(38,445)
Intangibles	(17,203)	(1,508)	-	(18,711)
Infrastructure	(602,975)	(51,799)	518	(654,256)
Total Accum. Depreciation	<u>(720,790)</u>	<u>(63,914)</u>	<u>4,959</u>	<u>(779,745)</u>
Total Depreciable Assets, net	<u>1,015,691</u>	<u>108,667</u>	<u>(2,361)</u>	<u>1,121,997</u>
Business-type Activities				
Capital Assets, net	<u>\$ 1,371,362</u>	<u>\$ 226,656</u>	<u>\$ (169,193)</u>	<u>\$ 1,428,825</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Depreciation and Amortization expense was charged to enterprise functions in the government-wide financial statements as follows (in thousands):

Electric	\$	5,942
Gas		4,675
Water		26,161
Wastewater		21,124
Solid Waste		407
Airport		1,932
Golf Course		489
Convention Center		235
Hohokam Stadium/Fitch Complex		887
Cubs		1,615
District Cooling		447
	\$	<u>63,914</u>

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

<u>Governmental Activities</u>	<u>Construction in Progress</u>	<u>Commitments</u>
General Government	\$ 29,515	\$ 1,401
Public Safety	6,449	3,614
Cultural-Recreational	6,754	2
Community Environmental	121,604	1,437
Warehouse, Maintenance & Services	252	30
Total	<u>\$ 164,574</u>	<u>\$ 6,484</u>
 <u>Business-type Activities</u>		
Electric	\$ 20,248	\$ 211
Gas	29,418	710
Water	112,928	138
Wastewater	37,718	2
Solid Waste	12,827	-
Airport	4,415	18
Golf Course	276	-
Convention Center	478	21
Hohokam Stadium/Fitch Complex	79	-
Cubs Stadium	16,406	5,470
District Cooling	202	12
Total	<u>\$ 234,995</u>	<u>\$ 6,582</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

For the year ended June 30, 2014, the City capitalized net interest costs of \$6,280,832. Total interest expense in the Business-type Activities Enterprise Fund before capitalization was \$51,084,767.

Special Item – Gain on Sale of Capital Assets

During the year ended June 30, 2014, the City sold land holdings in Pinal County with an historical cost of \$3,809,706 for \$23,329,786 which resulted in a gain of \$19,520,080. In addition, the City sold various other capital assets resulting in an overall net gain of \$18,696,518. While a gain on the sale of capital assets is not unusual in nature, the total net gain is reported as a special item as the City generally does not sell large amounts of land.

8. LONG-TERM OBLIGATIONS

a. Changes in Long-Term Obligations

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

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 324,683	\$ 37,550	\$ (18,193)	\$ 344,040	\$ 21,014
Highway User Revenue Bonds	114,650	-	(6,945)	107,705	7,255
Special Assessment Bonds					
with Governmental Commitment	4,318	-	(744)	3,574	744
Community Facility District	2,712	3,250	(65)	5,897	135
Total Bonds Payable	446,363	40,800	(25,947)	461,216	29,148
Capital Leases	140	-	(68)	72	72
Notes Payable	122,835	-	(45,000)	77,835	-
Unamortized Premiums	21,682	430	(3,392)	18,720	-
Post Employment Benefits	323,554	43,192	(13,841)	352,905	-
Compensated Absences	22,995	24,059	(20,959)	26,095	3,292
Governmental Activities Total	\$ 937,569	\$ 108,481	\$ (109,207)	\$ 936,843	\$ 32,512
Business-type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 978,160	\$ 36,385	\$ (22,550)	\$ 991,995	\$ 23,860
General Obligation Bonds	887	-	(282)	605	131
Excise Tax Revenue Obligations	94,060	-	-	94,060	-
Total Bonds Payable	1,073,107	36,385	(22,832)	1,086,660	23,991
Notes Payable	2,370	-	(126)	2,244	128
Unamortized Bond Premiums	28,353	258	(3,282)	25,329	-
Post Employment Benefits	65,495	6,770	(2,170)	70,095	-
Compensated Absences	3,856	3,233	(3,182)	3,907	601
Business-type Activities Total	\$ 1,173,181	\$ 46,646	\$ (31,592)	\$ 1,188,235	\$ 24,720

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Internal service funds predominantly serve the governmental funds. Accordingly long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$9,379,003 of internal service funds post-employment benefits and compensated absences are included in the above amounts. Also, for the governmental activities, post-employment benefits and compensated absences are generally liquidated by the general fund.

b. Bonds Payable

At June 30, 2014, long-term bonds payable consisted of:

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

<u>General Obligation Bonds</u>	<u>Bonds Outstanding (In Thousands)</u>
\$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.	\$ 1,413
\$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.	45,968
\$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.	1,500
\$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.	9,425
\$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
\$15,450,000 2008 general obligation serial bonds due in annual installments ranging from \$375,000 to \$6,675,000, plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2028.	13,450
\$61,830,000 2009 general obligation serial bonds due in annual installments ranging from \$1,750,000 to \$10,125,000, plus semi-annual interest ranging from 4.0 percent to 4.625 percent through July 1, 2029.	45,495
\$30,865,000 2010 general obligation bonds due in annual installments ranging from \$1,115,000 to \$13,225,000, plus semi-annual interest ranging from 4.75 percent to 5.85 percent through July 1, 2030.	30,865

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Bonds Outstanding</u> <u>(In Thousands)</u>
\$29,320,000 2011 general obligation serial bonds due in annual installments ranging from \$800,000 to \$6,825,000, plus semi-annual interest ranging from 2 percent to 4.25 percent through July 1, 2031.	\$ 26,350
\$27,290,000 2012 general obligation serial bonds due in annual installments ranging from \$840,000 to \$8,550,000, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2032.	25,600
\$31,148,160 2012 general obligation refunding serial bonds due in annual installments ranging from \$419,601 to \$7,350,252, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2022.	23,299
\$8,915,000 2013 general obligation refunding serial bonds due in annual installments ranging from \$30,000 to \$3,250,000, plus semi-annual interest ranging from .7 percent to 5 percent through July 1, 2024.	8,885
\$59,960,000 2013 general obligation serial bonds due in annual installments ranging from \$1,635,000 to \$12,675,000, plus semi-annual interest ranging from 1.5 percent to 4 percent through July 1, 2023.	58,325
\$37,550,000 2014 general obligation serial bonds due in annual installments ranging from \$1,050,000 to \$5,575,000, plus semi-annual interest ranging from 2 percent to 3.6 percent through July 1, 2034.	<u>37,550</u>
Total General Obligation Bonds	\$ 344,040

Street and Highway User Revenue Bonds

\$26,805,000 2003 street and highway user revenue bonds, (partially refunded by street and highway user revenue refunding bonds, series 2012) due in annual principal installments ranging from \$500,000 to \$9,750,000, plus semi-annual interest ranging from 4.25 percent to 5.50 percent through July 1, 2018.	\$ 3,200
\$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.	1,075
\$17,760,000 2004 street and highway user revenue refunding bonds, due in annual installments ranging from \$20,000 to \$7,250,000, plus semi-annual interest ranging from 3.5 percent to 5.0 percent through July 1, 2018.	17,740
\$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.	23,750

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Bonds Outstanding</u> <u>(In Thousands)</u>
\$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, 2023.	\$ 1,175
\$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
\$10,675,000 2007 street and highway user revenue bonds, due in annual principal installments ranging from \$1,000,000 to \$3,900,000, plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2027.	10,675
\$36,090,000 2012 street and highway user revenue refunding bonds, due in annual installments ranging from \$665,000 to \$9,700,000, plus semi-annual interest ranging from 3.0 percent to 5.0 percent through July 1, 2022.	29,915
\$8,500,000 2013 street and highway user revenue refunding bonds, due in one installment of \$8,500,000 plus semi-annual interest of 5 percent through July 1, 2024.	<u>8,500</u>
Total Street and Highway User Revenue Bonds	\$ 107,705
<u>Special Assessment Bonds (payable from special assessments levied on the benefited properties)</u>	
\$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.	\$ 2,345
\$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.	<u>1,229</u>
Total Special Assessment Bonds	\$ 3,574
<u>Community Facilities District</u>	
\$2,712,000 2013 Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) Assessment District No. 1 Special Assessment Revenue Bonds, due in annual principle installments ranging from \$62,000 to \$95,000, plus semi-annual interest ranging from 4.6 percent to 5.3 percent through July 1, 2038.	\$ 2,647

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Bonds Outstanding (In Thousands)
\$3,250,000 2014 Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) General Obligation Bonds, due in annual principle installments ranging from \$65,000 to \$225,000, plus semi-annual interest ranging from 4.8 percent to 5.3 percent through July 15, 2038.	\$ <u>3,250</u>
Total Community Facilities District Bonds	\$ <u>5,897</u>
Total bonds payable recorded in governmental activities	\$ <u>461,216</u>

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

General Obligation Bonds

\$120,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from \$294 to \$46,771, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	\$ 7
\$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.	212
\$ 516,840 2012 general obligation refunding serial bonds, due in annual principal installments ranging from \$15,399 to \$269,748, plus semi-annual interest ranging from 2 percent to 4 percent through July 1, 2022.	<u>386</u>
Total General Obligation Bonds	\$ 605

Utility Systems Revenue Bonds

\$57,950,000 2002 utility systems revenue serial bonds (partially refunded by 2004 & 2006 utility systems revenue refunding bonds), due in annual principal installments ranging from \$950,000 to \$1,000,000, plus semi-annual interest ranging from 4.25 percent to 5.75 percent through July 1, 2017.	\$ 3,000
\$129,000,000 2002 utility systems revenue refunding serial bonds, (partially refunded by 2012 and 2012 taxable utility systems revenue refunding bonds) due in annual principal installments ranging from \$65,000 to \$29,550,000, plus semi-annual interest ranging from 3.40 percent to 5.25 percent through July 1, 2017.	22,310
\$48,850,000 2002A utility systems revenue refunding serial bonds, (partially refunded by 2012 utility systems revenue refunding bonds) due in annual principal installments ranging from \$40,000 to \$17,890,000, plus semi-annual interest ranging from 3.00 percent to 5.00 percent through July 1, 2015.	17,890

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Bonds Outstanding (In Thousands)
\$50,470,000 2003 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) and series 2012 utility systems revenue refunding bonds), due in annual principal installments ranging from \$970,000 to \$25,500,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2019.	\$ 5,000
\$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
\$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.	40,325
\$91,200,000 2005 utility systems revenue serial bonds, (partially refunded by 2006 (and series 2012) utility systems revenue refunding bonds), due in annual principal installments ranging from \$750,000 to \$24,000,000, plus semi-annual interest ranging from 4.125 percent to 5.0 percent through July 1, 2029.	71,200
\$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
\$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.	58,075
\$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.	126,965
\$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
\$52,875,000 2008 utility systems revenue serial bonds, due in annual principal installments ranging from \$700,000 to \$44,675,000, plus semi-annual interest ranging from 4.875 percent to 5.25 percent through July 1, 2032.	52,875
\$21,125,000 2008 utility systems revenue refunding serial bonds, due in annual principal installments ranging from \$100,000 to \$2,200,000, plus semi-annual interest ranging from 3.00 percent to 4.00 percent through July 1, 2018.	8,275

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Bonds Outstanding (In Thousands)
\$59,900,000 2009 utility systems revenue serial bonds, due in annual principal installments ranging from \$900,000 to \$48,250,000, plus semi-annual interest ranging from 5.875 percent to 6.375 percent through July 1, 2033.	\$ 59,900
\$50,380,000 2010 utility systems revenue serial bonds, due in one principal installment, plus semi-annual interest of 6.10 percent through July 1, 2034.	50,380
\$53,950,000 2011 utility systems revenue serial bonds, due in one principal installment, plus semi-annual interest of 5.0 percent through July 1, 2035.	53,950
\$67,300,000 2012 utility systems revenue serial bonds, due in one principal installment, plus semi-annual interest of 4.0 percent through July 1, 2036.	67,300
\$31,580,000 2012 utility systems revenue refunding serial bonds, due in annual principal installments ranging from \$7,440,000 to \$9,150,000, plus semi-annual interest ranging from 4.0 percent to 4.826 percent through July 1, 2021.	31,580
\$80,295,000 2012 taxable utility systems revenue refunding serial bonds, due in annual principal installments ranging from \$3,225,000 to \$9,150,000, plus semi-annual interest ranging from 3.269 percent to 5.048 percent through July 1, 2035.	80,295
\$47,290,000 2013 utility systems revenue bonds, due in one principal installment, plus semi-annual interest of 4.0 percent through July 1, 2037.	47,290
\$36,385,000 2014 utility systems revenue bonds, due in two principal installments of \$20,000,000 and \$16,385,000, plus semi-annual interest of 4.0 percent through July 1, 2038.	<u>36,385</u>
Total Utility Systems Revenue Bonds	\$ 991,995
<u>Excise Tax Revenue Obligations</u>	
\$94,060,000 2013 excise tax revenue obligation, due in annual principal installments ranging from \$6,620,000 to \$10,785,000, plus semi-annual interest of 5.0 percent through July 1, 2032.	\$ <u>94,060</u>
Total bonds payable recorded in business-type activities	\$ <u>1,086,660</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The following tables summarize the City's debt service requirements to maturity for its long term bonds payable at June 30, 2014 (in thousands). 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
2015	\$ 21,014	\$ 13,758	\$ 34,772	2015	\$ 7,255	\$ 5,186	\$ 12,441
2016	17,156	13,016	30,172	2016	7,585	4,884	12,469
2017	17,923	12,493	30,416	2017	7,900	4,503	12,403
2018	41,764	11,743	53,507	2018	8,375	4,110	12,485
2019	13,406	9,849	23,255	2019	8,715	3,693	12,408
2020-24	76,177	40,976	117,153	2020-24	49,350	11,627	60,977
2025-29	95,225	23,903	119,128	2025-29	18,525	1,307	19,832
2030-34	61,375	5,216	66,591	2030-34	-	-	-
TOTALS	\$ 344,040	\$ 130,954	\$ 474,994	TOTALS	\$ 107,705	\$ 35,310	\$ 143,015

Special Assessment Bonds				Community Facilities District			
Fiscal Year	Principal	Interest	Total	Fiscal Year	Principal	Interest	Total
2015	\$ 744	\$ 178	\$ 922	2015	\$ 135	\$ 293	\$ 428
2016	745	138	883	2016	150	274	424
2017	745	98	843	2017	155	270	425
2018	335	68	403	2018	160	266	426
2019	335	48	383	2019	165	261	426
2020-24	670	39	709	2020-24	940	1,191	2,131
2025-29	-	-	-	2025-29	1,180	949	2,129
2030-34	-	-	-	2030-34	1,505	623	2,128
2035-38	-	-	-	2035-38	1,507	197	1,704
TOTALS	\$ 3,574	\$ 569	\$ 4,143	TOTALS	\$ 5,897	\$ 4,324	\$ 10,221

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Business-type Activities

General Obligation Bonds				Revenue Bonds			
Fiscal Year	Principal	Interest	Total	Fiscal Year	Principal	Interest	Total
2015	\$ 131	\$ 21	\$ 152	2015	\$ 23,860	\$ 47,460	\$ 71,320
2016	84	18	102	2016	24,800	46,224	71,024
2017	67	16	83	2017	26,070	45,015	71,085
2018	181	13	194	2018	31,880	43,827	75,707
2019	34	5	39	2019	34,825	42,277	77,102
2020-24	108	9	117	2020-24	165,730	187,315	353,045
2025-29	-	-	-	2025-29	209,270	143,718	352,988
2030-34	-	-	-	2030-34	262,945	90,891	353,836
2035-39	-	-	-	2035-39	212,615	19,167	231,782
TOTALS	\$ 605	\$ 82	\$ 687	TOTALS	\$ 991,995	\$ 665,894	\$ 1,657,889

Excise Tax Revenue Obligations

Fiscal Year	Principal	Interest	Total
2015	\$ -	\$ 4,703	\$ 4,703
2016	-	4,703	4,703
2017	-	4,703	4,703
2018	-	4,703	4,703
2019	-	4,703	4,703
2020-24	20,870	22,505	43,375
2025-29	42,355	14,268	56,623
2030-34	30,835	3,135	33,970
TOTALS	\$ 94,060	\$ 63,423	\$ 157,483

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, 2014, 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, 2014 are \$3,574,000.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

General Obligation Bonds

The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, \$605,451 of these bonds at June 30, 2014 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, 2014 is (in thousands):

6% Bonds	\$ 152,973
20% Bonds	<u>167,887</u>
Total Available	<u>\$ 320,860</u>

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

c. **Reserves for Bond Indentures**

Pursuant to the provisions of the Bond Resolution of the City of Mesa Utility System Revenue and Refunding bonds, Replacement and Reserve Funds are required to be established, into which a sum equal to 2 percent of the gross revenues – as determined on a modified accrual basis – must be deposited until a sum equal to two percent of all tangible assets of the Utility System is accumulated. As of June 30, 2014, the amount provided in the Replacement and Extension Funds equaled \$25,273,850 which is in compliance with the bond provisions.

d. **Notes Payable**

Governmental Activities

The City issued \$122,835,000 of Highway Project Advancement Notes (HPAN) to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the right-of-way acquisition, design and construction of highway improvements to State Route 24 between State Route 202L and Ellsworth Road. The City has entered into an intergovernmental agreement with ADOT and the Maricopa Association of Governments to advance the improvements to State Route 24. The agreement provides for repayment by ADOT to the City of the full amount of the City advance from monies available to ADOT for the project within a 60-month loan period. As of June 30, 2014, \$45,000,000 has

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

been repaid to the City by ADOT, subsequently these HPAN notes have been paid off by the City. The remaining repayments of \$77,835,000 are not secured by any lien upon or pledge of any particular revenues, monies or property of ADOT. No assurance can be given that ADOT will have funds available for repayments due at the times or in the amounts set forth under the agreement.

Business Type Activities

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

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

The following table reflects the annual requirements to amortize all notes outstanding as of June 30, 2014 (in thousands):

Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest & Fees	Total
2015	\$ -	\$ 3,892	\$ 3,892	\$ 128	\$ 49	\$ 177
2016	-	3,892	3,892	131	47	178
2017	14,085	3,892	17,977	134	44	178
2018	14,800	3,188	17,988	137	41	178
2019	15,525	2,447	17,972	140	38	178
2020-24	33,425	2,527	35,952	747	141	888
2025-29	-	-	-	827	55	882
TOTALS	<u>\$ 77,835</u>	<u>\$ 19,838</u>	<u>\$ 97,673</u>	<u>\$ 2,244</u>	<u>\$ 415</u>	<u>\$ 2,659</u>

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, 2014 (in thousands).

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Governmental Activities			
Fiscal Year	Principal	Interest	Total
2015	<u>72</u>	<u>3</u>	<u>75</u>
TOTALS	<u>\$ 72</u>	<u>\$ 3</u>	<u>\$ 75</u>

The assets acquired through capital leases are as follows (in thousands):

	Governmental Activities
Asset:	
Machinery & Equipment	\$ 430
Less: Accumulated depreciation	<u>(277)</u>
Total	<u>\$ 153</u>

f. **Short-term Debt**

The City had no short-term debt activity for the fiscal year ended June 30, 2014.

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

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

h. **Pledged Revenues**

I. Utility System Revenue Bonds

The City has pledged future utility customer revenues, net of specified operating expenses, to repay approximately \$1.865 billion in utility system revenue bonds issued since 1997. Proceeds from the bonds provided financing for the construction of various utility related projects including new gas pipelines and water and wastewater treatment plants. The bonds are payable solely from utility customer net revenues and are payable through 2038. Annual principal and interest payments on the bonds were 44.6 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1.658 billion. Principal and interest paid for the current year and total customer net revenues were \$67,337,000 and \$150,832,000, respectively.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

II. Highway User Revenue Bonds

The City has pledged future Highway User Taxes Revenue to repay \$224.4 million in highway user revenue bonds issued since 2002. Proceeds from the bonds provided financing for streets projects. The bonds are payable solely from the state shared Highway User Tax revenues and are payable through 2027. Annual principal and interest payments on the bonds were 40 percent of eligible revenues. The total principal and interest remaining to be paid on the bonds is \$143,015,225. Principal and interest paid for the current year and total highway user tax revenues were \$12,416,900 and \$30,922,300, respectively.

III. Special Assessment Bonds

The special assessment revenues collected by the City are pledged to repay \$9.1 million of special assessment bonds issued since 2005. Proceeds from the bonds are used to finance improvements that property owners have agreed to pay. In the event of default by the property owner, an auction sale may be enforced by the City. If collections and auction proceeds are not sufficient to retire outstanding bonds the City is contingently liable. These bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to be covered 100% with collections from the property owners. The total principal and interest remaining to be paid on the bonds is \$4,142,260. Principal and interest paid for the current year and total assessments collected were \$961,400, and \$861,366, respectively

9. REFUNDED, REFINANCED AND DEFEASED OBLIGATIONS

Liabilities to be Paid from Assets Held in Escrow

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

In accordance with GASB Statement No. 7, the refunded debt outstanding at June 30, 2014 as reflected below is not included in the City's financial statements (in thousands).

Utility System Revenue Refunding Bond Issue dated February 1, 2002	\$ 43,385
Utility System Revenue Bond Issue dated June 1, 2005	20,000
Utility System Revenue Bond Issue dated June 1, 2006	18,075
General Obligation Bond Issue dated June 9, 2005	8,705
Street and Highway User Revenue Bond Issue dated June 9, 2005	<u>8,500</u>
Total Refunded Bonds Outstanding	<u>\$ 98,665</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

10. SELF-INSURANCE INTERNAL SERVICE FUND

The Property and Public Liability, Workers' Compensation and Employee Benefits Internal Service Funds have been established to account for the costs of claims incurred by the City under self-insurance programs. The City is fully self-insured for all public liability risks, up to a maximum of \$3,000,000, per occurrence, for the current policy year under the Property and Public Liability Insurance program. In addition, the City carries full property insurance with a \$50,000 per occurrence deductible. Under the Workers' Compensation Program, the City is subject to a maximum deductible of \$1,000,000 liability per occurrence. In the Employee Benefits Fund, the City has excess insurance coverage when an individual's claims exceed \$225,000 per contract year. There were no changes in insurance coverage during this fiscal year for any of the three Self-Insurance Funds.

The Workers' Compensation Fund does not have a stop loss receivable at June 30, 2014. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of \$763,596 with \$307,416 received this current fiscal year. The Property and Public Liability Fund does not have a stop loss receivable at June 30, 2014, and the Fund has not received any settlements in excess of insurance coverage over the past three fiscal years. The Employee Benefits Fund does not have stop loss receivable at June 30, 2014. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of \$2,436,444 with \$1,356,261 received this current fiscal year.

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

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

	Property & Public Liability	Workers' Compensation	Employee Benefits	Total
Unpaid Claims, 6/30/12	\$ 13,030	\$ 18,718	\$ 5,587	\$ 37,335
Adjustments to Reserves-FY 12-13	1,165	6,675	48,062	55,902
Claim Payments-FY 12-13	(829)	(3,686)	(49,803)	(54,318)
Unpaid Claims, 6/30/13	\$ 13,366	\$ 21,707	\$ 3,846	\$ 38,919
Adjustments to Reserves-FY 13-14	\$ (486)	\$ 4,186	\$ 53,014	\$ 56,714
Claim Payments-FY 13-14	(3,299)	(3,086)	(52,191)	(58,576)
Unpaid Claims, 6/30/14	<u>\$ 9,581</u>	<u>\$ 22,807</u>	<u>\$ 4,669</u>	<u>\$ 37,057</u>

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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

11. COMMITMENTS AND CONTINGENT LIABILITIES

a. **Pending Litigation**

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

b. **Sick Leave Benefits**

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

The total sick leave balance recorded as a liability at June 30, 2014, is \$10,616,584.

12. NET POSITION

a. **Restricted Net Position**

The government-wide statement of net position reports \$103.6M of restricted net position, of which \$47.9M is restricted by enabling legislation.

b. **Designated Net Position**

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

c. **Deficit Net Position**

The deficit in the Workers Compensation Self-Insurance Fund consists of prior years' deficit plus current year claims expenses exceeding revenues received. The City's funding plan calls for yearly contributions from various funds to equal the years estimated claims and claim related expenses. Future claim liabilities are not considered in determining funding for each year.

The deficit in the Warehouse, Maintenance and Services fund was a result of other post-employment benefit charges.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

13. ENTERPRISE ACTIVITIES OPERATIONS DETAIL

The Enterprise Fund includes operations of electricity, gas, water, wastewater, solid waste, airport, golf course, convention center, stadiums and district cooling. Although the City's Enterprise Fund does not meet the requirements for disclosing segment information, these services provided by the City are of such significance as to warrant certain additional disclosures. Operating revenue, expenses and operating income loss for the year ended June 30, 2014 for these services are as follows (in thousands):

Functions	Operating Revenues	Operating Expenses		Operating Income (Loss)
		Depreciation and Amortization	Other	
Electric	\$ 31,198	\$ 5,942	\$ 22,983	\$ 2,273
Gas	38,600	4,675	26,778	7,147
Water	112,003	26,161	40,997	44,845
Wastewater	66,457	21,124	21,689	23,644
Solid Waste	47,452	407	32,431	14,614
Airport	3,813	1,932	2,410	(529)
Golf Course	1,622	489	2,052	(919)
Convention Center	2,057	235	2,825	(1,003)
Hohokam /Fitch Complex	36	887	1,992	(2,843)
District Cooling	1,142	447	970	(275)
Cubs	174	1,615	706	(2,147)
Total	<u>\$ 304,554</u>	<u>\$ 63,914</u>	<u>\$ 155,833</u>	<u>\$ 84,807</u>

14. JOINT VENTURES

The City currently participates in five joint ventures. The Greenfield Water Reclamation Plant and TOPAZ Regional Wireless Cooperative are managed by the City of Mesa, while the Subregional Operating Group, the Val Vista Water Treatment Plant, and Valley Metro Rail, Inc. are managed externally.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The City's investment in these Joint Ventures as of June 30, 2014 is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Valley Metro Rail Inc	\$ 124,417	\$ -	\$ 124,417
TOPAZ Regional Wireless Cooperative	1,160	-	1,160
Subregional Operating Group	-	94,259	94,259
Val Vista Water Treatment Plant	-	61,974	61,974
Greenfield Water Reclamation Plant	-	61,561	61,561
Joint Ventures Construction Deposits	-	4,805	4,805
Total Investment in Joint Ventures	<u>\$ 125,577</u>	<u>\$ 222,599</u>	<u>\$ 348,176</u>

Valley Metro Rail, Inc. "VMRI"

The City currently participates in the Central Phoenix/East Valley Light Rail Transit (LRT) along with the cities of Phoenix, Tempe and Glendale. Valley Metro Rail, Inc. (VMRI) is the management agency that was incorporated to administer the joint agreement between the cities and has oversight responsibility for the planning, design, construction and operation of the system. The agreement provides voting rights for members of the representative cities, including passage of an annual budget. The City has ongoing financial responsibility as a result of the joint agreement including participation in the cost to construct and to operate the light rail project less any Federal reimbursements and operating fares.

A total of \$1,194,302,583 has been spent on this project through the fiscal year ended June 30, 2014, of which the City's share and equity interest is \$124,417,230. The City has received and accrued \$56.8 million of funding from the Federal Transit Administration (FTA), Congestion Mitigation Air Quality (CMAQ) and Public Transit Funds (PTF) related to this project.

In March 2010, the Mesa City Council approved a 3 mile extension of the LRT system and in August 2010, the Federal Transit Administration approved the alignment for project development as the next step toward federal funding. The extension begins at the eastern limits of METRO's existing light rail system (Sycamore) and extends east on Main Street to Mesa Drive. The entire extension is within the City of Mesa. There are four stations on Main Street including a station at Alma School Road, Country Club Drive, Center Street, and Mesa Drive. The extension is planned to open in 2016 with ridership estimated at approximately 4,750 riders per day. The total capital cost of the project is \$199.0 million to be funded with a combination of federal and regional funds.

In May 2011, the City entered into an agreement with METRO for a developmental study to further extend the LRT system an additional two miles from Mesa Drive to Gilbert Road. Construction is expected to begin in 2016. The extension is expected to open in late 2018.

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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TOPAZ Regional Wireless Cooperative

The City of Mesa currently participates with the City of Apache Junction, Apache Junction Fire District the Town of Gilbert, the Town of Queen Creek and Rio Verde Fire District (the Parties) in an intergovernmental agreement to plan, design, construct, operate, maintain and finance the TOPAZ Regional Wireless Cooperative Network (Trunked Open Arizona Network) TOPAZ is a 700/800 MHz Network procured and built by the City of Mesa. The City acts as the lead agency and is responsible for the planning, budgeting, construction, operation and maintenance of the network. As lead agent, the City provides all management personnel and financing arrangements. The Parties participate in ownership of the network and are charged for operating and capital expenses based on six month rolling average of airtime. The City's equity in the joint venture is \$1,159,565 and is reflected in the governmental funds financial statements. Separate financial statements are not prepared.

Total investment in the joint venture as of June 30, 2014 is (in thousands):

City of Mesa	\$ 1,160
Town of Gilbert	255
City of Apache Junction	60
Apache Junction Fire District	29
Town of Queen Creek	15
Rio Verde Fire District	<u>5</u>
Total Joint Venture	<u>\$1,524</u>

Wastewater

Subregional Operating Group

The City participates with the cities of Phoenix, Glendale, Scottsdale and Tempe in the Subregional Operating Group (SROG). SROG was formed pursuant to the Joint Exercise of Powers Agreement (JEPA) in order to govern the construction, operation and maintenance of a multi-city sanitary sewer system (the "System"). The System includes the 91st Avenue Wastewater Treatment Plant, the Salt River outfall Sewer, the Southern Avenue Interceptor and related transportation facilities.

The City of Phoenix acts as the lead agency in SROG and is responsible for the planning, budgeting, construction, operation and maintenance of the plant in addition to providing 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 equity in the joint venture is \$94,258,780 and is reflected in the proprietary funds financial statements.

SROG has no bonded debt outstanding. Separate financial statements for the activity under the joint venture agreement can be obtained through the AMWUA office at 3003 N. Central Avenue, Suite 1550, Phoenix, Arizona, 85012.

Water

Val Vista Water Treatment Plant

The City also participates with the City of Phoenix in the Val Vista Water Treatment Plant and Transmission Line. 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

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 \$61,973,625 and is reflected in the proprietary funds financial statements.

The water treatment plant has no bonded debt outstanding. Separate financial statements for the activity can be obtained through the City of Phoenix, Finance Department, Financial Accounting and Reporting Division at 251 W. Washington Street, 9th Floor, Phoenix, Arizona, 85003.

Greenfield Water Reclamation Project

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

Total investment in the joint venture as of June 30, 2014 is (in thousands):

Mesa's Share	\$ 61,562
Gilbert's Share	58,573
Queen Creek's Share	<u>26,168</u>
Total Joint Venture	<u>\$ 146,303</u>

15. RETIREMENT AND PENSION PLANS

All benefitted employees of the City are covered by one of three pension systems. The Arizona State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All benefited City employees, except sworn fire and police personnel, the Mayor and City Council, are included in the plan that is a multiple-employer cost-sharing defined benefit pension plan. All sworn fire and police 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 Defined Benefit Plan:

a. **Plan Description**

All the City's eligible benefitted general employees participate in the Arizona State Retirement System ("ASRS"), a multiple-employer, cost-sharing defined benefit pension plan. ASRS 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. ASRS is administered in accordance with Title 38, Chapter 5 of the Arizona Revised Statutes. ASRS provides for retirement, disability, and death and survivor benefits. ASRS 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, P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling 1-800-621-3778.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

b. **Funding Policy**

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. Covered employees were required by state statute to contribute for the years ended June 30, 2014, 2013, and 2012, 11.54 percent (11.30 pension plus 0.24 long-term disability), 11.14 percent (10.90 pension plus 0.24 long-term disability), and 10.74 percent (10.50 pension plus 0.25 long-term disability), respectively. The City’s covered employee contributions to the System for the years ending June 30, 2014, 2013 and 2012 were \$16,909,221, \$16,607,775, and \$14,563,437, respectively, which were equal to the required contributions for each year. The City contributed equal amounts to ASRS for the same time period.

Additionally, the City is required to pay an ASRS Alternate Contribution Rate (“ACR”) for retired members who return to work on or after July 1, 2012, in any capacity and in a position ordinarily filled by an employee of the City to mitigate the potential impact that retired members who return to work may have on the ASRS Trust Fund. The contribution rate for the year ended June 30, 2014 was 9.20 percent. The City’s ACR contributions to the System for the year ending June 30, 2014 were \$80,349.

Arizona State Retirement System Defined Contribution Plan:

a. **Plan Description**

Arizona Legislation passed House Bill HB 2562 which established a new defined contribution retirement plan (ASRS §38-955 Defined Contribution Retirement Plan “DC”) to cover public employees who were deemed ineligible to participate in the ASRS established Defined Benefit Plan. The plan was effective September 13, 2013. Employees participating in the new DC plan are also required to participate in the ASRS Long-Term Disability Program. The DC plan is a multiple-employer, profit sharing plan with ASRS as the Principal Sponsor and managed by Nationwide Retirement Solutions, Inc. The DC plan is administered in accordance with Title 38, Chapter 5 of the Arizona Revised Statutes. The DC plan provides for retirement, with disability, and death and survivor benefits provided through the ASRS Long-Term Disability Program.

b. **Funding Policy**

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. Covered employees were required by state statute to contribute for the year ended June 30, 2014, 8.51 percent (8.27 contribution plus 0.24 long-term disability). The City’s covered employee contributions to the DC plan for the year ending June 30, 2014, were \$26,691 which was equal to the required contributions for the year. The City contributed equal amounts to the DC plan for the same time period.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 sworn fire and police agencies within the state. All sworn fire and police personnel are eligible to participate in the plan. The plan provides retirement, disability benefits, and death benefits to plan members and beneficiaries. The PSPRS is jointly administered by the Fund Manager and 256 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**

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). PSPRS members are required to contribute 10.35 percent of their annual covered salary. The City is required to contribute an actuarially determined rate expressed as a percent of covered salary and a distribution of the net earnings of the Fund. The City’s rates for the fiscal years ending June 30, 2014, 2013, and 2012, were 31.26 percent (29.66 pension plus 1.60 health care), 27.62 percent (25.94 pension plus 1.68 health care), and 23.12 percent (21.46 pension plus 1.66 health care), respectively, for fire personnel and 31.21 percent (29.39 pension plus 1.82 health care), 27.51 percent (25.63 pension plus 1.88 health care), and 23.34 percent (21.58 pension plus 1.76 health care), respectively, for police members.

c. **Annual Pension Cost**

Fire personnel contributed \$3,193,706 (\$3,159,985 regular members plus \$33,721 DROP members) and police personnel contributed \$6,224,577 (\$6,126,569 regular members plus \$98,008 DROP members) during fiscal year 2013-2014. For 2014, the City’s annual pension cost of \$8,658,660 for fire and \$18,474,328 for police was equal to the City’s required and actual contributions for the pension cost not including health care. The required contribution was determined as part of the June 30, 2012 actuarial valuation using an individual entry-age actuarial cost method.

The City is also required to pay a PSPRS Alternate Contribution Rate (“ACR”) for retired members who return to work in any capacity and in a position ordinarily filled by an employee of the City, unless the retired member is required to participate in another state retirement system and the retired member returned to work before July 20, 2011. The ACR rate is equal to the portion of the total required contribution that is applied to the amortization of the unfunded actuarial accrued liability for the fiscal year beginning July 1, based on the actuarial calculation of the total required contribution for the preceding fiscal year ended on June 30. The contribution rate for the year ended June 30, 2014 was 17.07 percent for both fire and police. The City’s ACR contributions for the year ending June 30, 2014 were \$28,390 for fire and \$66,331 for police.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

d. **Three Year Trend Information for PSPRS**
 (Excluding health insurance subsidy)

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 5,972	100%	\$ -
2013	7,657	100	-
2014	8,687	100	-

Police

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 11,583	100%	\$ -
2013	16,692	100	-
2014	18,541	100	-

e. **Actuarial Methods and Assumptions**

The actuarial assumptions for both fire and police included (a) a rate of return on the investment of present and future assets of 8.0 percent investment rate of return, (b) projected salary increases of 5.0 percent attributable to inflation, (c) additional projected salary increases ranging from 0.0 percent to 4.0 percent per year, attributable to seniority/merit. The amortization method is a level percent of payroll closed. The actuarial value of PSPRS assets was determined using techniques that smooth the market value of assets over time. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over an closed period of 30 years, 24 years remaining as of June 30, 2012 (if the actuarial value of assets exceeded the actuarial accrued liability, then the excess was amortized over an open period of 20 years).

f. **Funded Status and Funding Progress**

The funded status of the plans (excluding Health Insurance Subsidy) as of June 30, 2014 (Latest actuarial date available) is as follows:

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Fire</u>	<u>Police</u>
Actuarial accrued liability (AAL)	\$ 299,681	\$ 542,745
Actuarial value of plan assets	164,241	278,811
Unfunded actuarial accrued liability (UAAL)	<u>\$ 135,440</u>	<u>\$ 263,934</u>
Funded ratio (actuarial value of plan assets/AAL)	54.80%	51.4%
Covered payroll (active plan members)	\$ 30,782	\$ 59,688
UAAL as a percentage of covered payroll	440.0%	442.2%

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

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

For 2014 the City's annual Other Post-Employment Benefits (OPEB) cost of \$1,083,360 for police and \$495,243 for fire was equal to the City's required contributions.

Funded Status and Funding Progress

The funded status of the Health Insurance Subsidy plans as of June 30, 2014 (Latest actuarial date available) is as follows (in thousands):

	<u>Fire</u>	<u>Police</u>
Actuarial accrued liability (AAL)	\$ 7,578	\$ 16,585
Actuarial value of plan assets	7,364	10,193
Unfunded actuarial accrued liability (UAAL)	<u>\$ 214</u>	<u>\$ 6,392</u>
Funded ratio (actuarial value of plan assets/AAL)	97%	61%
Covered payroll (active plan members)	\$ 30,782	\$ 59,688
UAAL as a percentage of covered payroll	0.70%	10.71%

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows (in thousands):

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Fiscal Year	Annual	Percentage of	Net OPEB
Ending	OPEB Cost	Annual OPEB Cost	Obligation
		Contributed	
2012	\$ 462	100%	\$ -
2013	490	100	-
2014	495	100	-

Police

Fiscal Year	Annual	Percentage of	Net OPEB
Ending	OPEB Cost	Annual OPEB Cost	Obligation
		Contributed	
2012	\$ 945	100%	\$ -
2013	1,105	100	-
2014	1,083	100	-

Elected Officials Retirement:

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 was closed to new enrollees December 31, 2013 per Arizona Revised Statute A.R.S. §38-801. 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 Statute) provides for periodic employer contributions at actuarially determined rates and employee contributions of 13.0 percent of their annual covered salary. Incorporated city or town employers are required to contribute an amount sufficient to meet both the normal cost of a level-cost method attributable to the EORP, plus the amount required to amortize the unfunded accrued liability for the employer. Such amounts are to be determined each year by actuarial valuation and paid as a level percent of compensation. The contribution requirements for plan members are established and may be amended by the Fund Manager, a five-member board. The City's rates for fiscal years ended June 30, 2014, 2013, and 2012, were 39.62 percent (July 1, 2013 – December 31, 2013) and 23.5 percent (January 1, 2014 – June 30, 2014), 36.44 percent, and 29.79 percent respectively. The City's contributions to EORP for the fiscal years ending June 30, 2014, 2013, and 2012 were \$47,033, \$59,877, and \$49,518, respectively, which were equal to the required contributions for each year. The City's employees contributed \$19,265, \$18,896, and \$15,010, respectively, for the same time period.

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

16. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 15, the City provides post-retirement health care benefits to all eligible retirees in accordance with the compensation plan adopted by the City Council each fiscal year. These benefits include medical, dental and vision insurance programs and are the same as those offered to active employees. Retirees may select single or family coverage. As of June 30, 2014, approximately 1,700 former employees were eligible for these benefits, an increase of 85 participants from the prior year or a 5.3% increase.

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

The unfunded actuarial accrued annual required contribution for current retirees as well as current active members for fiscal year 2013-2014 was \$33,950,603. A liability of \$4,600,746 is accrued in the business-type activities financial statements; the remaining \$29,349,857 has been accrued in the governmental activities column in the government-wide financial statements.

Plan Description

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

Benefits Provided

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

As of July 1, 2013, Membership Consisted of:

Retirees and Beneficiaries Receiving Benefits	1,700
Active Employees	<u>2,996</u>
Total	<u>4,696</u>

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Funding Policy

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

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

For fiscal year ended June 30, 2014, the City contributed \$16,010,780 to the plan (approximately 70.5 percent of total premiums). Plan members receiving benefits contributed \$6,694,056 or approximately 29.5 percent of total premiums.

Annual OPEB Costs / Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information for the plan are as follows at June 30, 2014 (in thousands):

Annual Required Contribution	\$ 56,339
Interest on Net OPEB Obligation	17,507
Adjusted to Annual Required Contribution	<u>(23,884)</u>
Annual OPEB Cost	49,962
Contributions Made	<u>(16,011)</u>
Increase in Net OPEB Obligation	33,951
Net OPEB Obligation – Beginning of year	389,049
Net OPEB Obligation – End of year	<u><u>\$ 423,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three years ending June 30, 2012 through 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	82,463	14,328	17.4	320,157
2013	83,569	14,677	17.6	389,049
2014	49,962	16,011	32.0	423,000

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013 was as follows (in thousands): (Latest actuarial date available)

Actuarial Value of Plan Assets	\$ -
Actuarial Accrued Liability	<u>650,918</u>
Unfunded actuarial accrued liability	<u>\$ 650,918</u>
Funded ratio	0%
Covered payroll	\$ 360,718
Unfunded actuarial accrued liability as a percentage of covered payroll	180.5%

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

Actuarial Methods and Assumptions

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

Valuation Date	July 1, 2013
Actuarial Cost Method	Entry age normal, level dollar amount
Amortization method	30 – year amortization open
Remaining amortization period	30 years
Asset Valuation Method	N/A, no assets in trust
Actuarial Assumptions:	
Discount rate	4.50%
Health care cost trend rate:	
• Medical, Drugs	8.5% in 2013-2014, grading down by 0.5% each year to an ultimate rate of 5.0%
• Dental, Mental Health, Vision	5%
• Retiree contribution increase	Same as medical trend

(Continued)

CITY OF MESA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

17. SUBSEQUENT EVENTS

On July 10, 2014 the City issued \$ 3,367,000 of 2014 Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) Assessment District No. 2 Special Assessment Bonds. These bonds are due in annual principal installments ranging from \$87,000 to \$225,000, plus semi-annual interest ranging from 4.5 percent to 5.4 percent through July 1, 2039.

On October 15, 2014 the City issued \$102,945,000 of Series 2014 Utility System Revenue Refunding Bonds (refunding \$101,295,904 of the Series 2002, 2003, 2005 and 2006 Utility Revenue Bonds and accrued interest). The purpose of the issuance was to take advantage of lower interest rates and reduce future payments.

Arizona Legislation passed House Bill HB 2050 which closed the ASRS §38-955 Defined Contribution Retirement Plan “DC” established by HB 2562 in 2013. The effective date of the plan closure was July 24, 2014.

18. RESTATEMENT OF BEGINNING NET POSITION

For the fiscal year ending June 30, 2014, GASB Statement No. 65 Items Previously Reported as Assets and Liabilities (“the Statement”) was implemented. The implementation of the statement resulted in the City eliminating the bond issuance costs that were previously capitalized and amortized over the life of the related debt. The City’s government-wide net position and proprietary fund net position as of June 30, 2013, have been restated as follows (in thousands):

	Governmental Activities	Business-Type Activities	Enterprise Fund
Net Position at 06/30/13, as Previously Reported	\$ 774,761	\$ 655,766	\$ 655,766
GASB Statement No. 65 adjustment	(4,051)	(5,360)	(5,360)
Net Position at 07/01/13, as Restated	<u>\$ 770,710</u>	<u>\$ 650,406</u>	<u>\$ 650,406</u>

(Concluded)

Required Supplementary Information

Chicago Cubs Spring Training
Opening Day



CITY OF MESA, ARIZONA

EXHIBIT B-1

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

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
2012	\$ 166,996	\$ 252,197	66.2%	\$ 85,201	\$ 28,075	303.5%
2013	170,547	268,821	63.4%	98,274	31,008	316.9%
2014	164,241	299,681	54.8%	135,440	30,782	440.0%

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
2012	\$ 277,907	436,074	63.7%	158,167	53,991	293.0%
2013	283,841	472,691	60.0%	188,850	60,097	314.2%
2014	278,811	542,745	51.4%	263,934	59,688	442.2%

Other Post-Employment Benefits (Health Insurance Subsidy)**Fire**

Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded ALL (UALL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UALL as a % of Covered Payroll ((b - a) / c)
2012	\$ -	7,129	7,129	0.0%	28,075	25.4%
2013	-	7,331	7,331	0.0%	31,008	23.6%
2014	7,364	7,578	214	97.0%	30,782	0.7%

Police

Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded ALL (UALL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UALL as a % of Covered Payroll ((b - a) / c)
2012	\$ -	15,222	15,222	0.0%	53,991	28.2%
2013	-	15,823	15,823	0.0%	60,096	26.3%
2014	10,193	16,585	6,392	61.0%	59,688	10.7%

CITY OF MESA, ARIZONA

EXHIBIT B-2

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014
 (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
July 1, 2009	-	916,616	0.0%	916,616	321,012	285.5%
July 1, 2011	-	992,016	0.0%	992,016	330,113	300.5%
July 1, 2013	-	650,918	0.0%	650,918	360,718	180.5%

Note: The Actuarial Accrued Liability decreased by 34%. The primary reason for the decrease is the cost of coverage has not increased at the rate assumed in the prior valuation and per capita costs are actually assumed to be significantly lower than previously assumed based on this favorable experience.

CITY OF MESA, ARIZONA

EXHIBIT B-3

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary Basis	Final Budget
Revenues:				
Sales Taxes	\$ 92,311	\$ 92,311	\$ 87,337	\$ (4,974)
Occupancy Taxes	-	-	25	25
Licenses and Permits	13,767	13,767	15,356	1,589
Intergovernmental	121,550	121,550	112,304	(9,246)
Charges for Services	15,025	15,025	20,829	5,804
Fines and Forfeitures	8,828	8,828	8,012	(816)
Investment Income	142	142	6	(136)
Contributions	103	103	65	(38)
Miscellaneous Revenues	1,813	1,813	1,498	(315)
Total Revenues	<u>253,539</u>	<u>253,539</u>	<u>245,432</u>	<u>(8,107)</u>
Expenditures:				
Current:				
General Government	60,424	62,079	69,142	(7,063)
Public Safety	207,672	210,188	205,433	4,755
Cultural-Recreational	32,677	33,979	32,495	1,484
Community Environment	11,900	11,326	8,050	3,276
Capital Outlay	259	4,631	7,853	(3,222)
Total Expenditures	<u>312,932</u>	<u>322,203</u>	<u>322,973</u>	<u>(770)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(59,393)	(68,664)	(77,541)	(8,877)
Other Financing Sources (Uses):				
Transfers In	96,757	96,757	109,520	12,763
Transfers Out	(20,532)	(24,338)	(16,080)	8,258
Total Other Financing Sources (Uses)	<u>76,225</u>	<u>72,419</u>	<u>93,440</u>	<u>21,021</u>
Net Change in Fund Balances	16,832	3,755	15,899	12,144
Fund Balances - Beginning	<u>37,511</u>	<u>37,511</u>	<u>46,359</u>	<u>8,848</u>
Fund Balance - Ending	<u>\$ 54,343</u>	<u>\$ 41,266</u>	<u>\$ 62,258</u>	<u>\$ 20,992</u>

See accompanying note to Required Supplementary Information

CITY OF MESA, ARIZONA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

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, 2014 on the “GAAP basis” to the “budget basis” as follows:

Net Change in Fund Balance-Budget Basis - Exhibit B-3	\$	15,899
Basis Differences:		
Compensated Absences		(172)
Sales Tax Accrual		7,840
Unrealized Gain on Investments		125
		<hr/>
Net Change in Fund Balance-GAAP Basis - Exhibit A-5	\$	<u>23,692</u>

Combining Statements

Auer Precision
Cleanroom



NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Cemetery Fund is designed to provide an accumulation of monies from which the interest earnings will provide perpetual care of the Cemetery.

Development Impact Fees Fund is designed to provide a balance of monies to ensure that new development bears a proportionate share of the cost of improvements to the City's parks, cultural facilities, libraries, fire facilities and equipment, police facilities and equipment, general government facilities and storm sewers. These funds are provided through the collection of development impact fees.

Eastmark Community Facility District accounts for the operations of the Eastmark Community Facility District which are paid from special assessments levied against the benefited properties.

Environmental Compliance Fund accounts for expenditures that are a result of federal and state environmental requirements. Financing for this fund is derived from a monthly environmental compliance fee that is charged to each utility customer.

Grants and Special Programs accounts for federal and state grant expenditures and other City programs. The principle financing source is federal and state grant revenues.

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.

Mesa Arts Center Restoration Fund is designed to provide an accumulation of monies to be used to replace or refurbish the Mesa Arts Center facilities. These funds are provided through a fee on all ticketed events at the facility.

Mesa Housing Authority Fund accounts for expenditures of the City's housing assistance programs that provide rent subsidy payments to private sector owners of dwelling units. Financing for this fund is derived from grants from the United States Department of Housing and Urban Development.

Quality of Life Sales Tax Fund accounts for expenditures of the voter-approved sales tax to improve the quality of life for Mesa residents.

Street Sales Tax Fund accounts for expenditures of the voter-approved sales tax that is used as the City match for the MAG Proposition 400 sales tax funds and also provides a local revenue source that is dedicated for street programs.

Capital Projects Funds

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and special revenue funds.

Eastmark Capital Projects accounts for the costs of construction of drains, basins, channels and other storm sewer improvements and street improvements in the Eastmark Community Facilities District.

General Capital Projects accounts for the costs of general City construction projects.

Law Enforcement Construction Fund accounts for the cost of public safety facilities.

Parks Bond Construction accounts for the costs of park facilities and improvements.

Storm Sewer Construction Fund accounts for the construction of drains, basins, channels and other storm sewer improvements.

Streets Construction Fund accounts for the cost of right-of-way acquisitions and street improvements.

Vehicle Replacement Fund accounts for expenditures related to the acquisition of replacement vehicles for the City's governmental funds. The funds are provided through transfers from the City's General Fund.

Debt Service Funds

These funds are established to account for the accumulation of resources for, and the payment of, principal and interest not serviced by the Enterprise Fund.

Capital Lease Redemption Fund accumulates monies for the payment of principal and interest requirements of capital leases relating to the acquisition of land, computer equipment, communication equipment, police helicopters and various public improvements within the City.

Eastmark Debt Service accumulates monies for the payment of the Community Facility District Bonds that are issued to finance the costs of improvements which are to be paid from special assessments levied against the benefited properties.

General Obligation Bond Redemption Fund accumulates monies for the payment of principal and interest requirements of the City's General Obligation Bonds.

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

Highway User Revenue Bond Redemption Fund accumulates monies for the payment of principal and interest requirements of the City's Highway User Revenue Bonds.

Special Assessment Bond Redemption Fund accumulates monies for the payment of the Special Assessment Bonds that are issued to finance the costs of improvements which are to be paid from special assessments levied against the benefited properties.



CITY OF MESA, ARIZONA
EXHIBIT C-1
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014
(in thousands)

Special Revenue Funds

	Cemetery	Development Impact Fees	Eastmark Community Facilities District	Environmental Compliance
ASSETS				
Pooled Cash and Investments	\$ 6,401	\$ 1,147	\$ 4	\$ 4,057
Accounts Receivable (Net of Allowances)	85	-	-	-
Accrued Interest Receivable	13	3	-	6
Due from Other Governments	-	-	-	-
Prepaid Costs	-	-	-	-
Deposits	-	-	-	-
Restricted Assets:				
Pooled Cash and Investments	-	-	-	-
Cash with Fiscal Agent	-	-	-	-
Cash with Trustee	-	-	-	-
Accounts Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Total Assets	<u>\$ 6,499</u>	<u>\$ 1,150</u>	<u>\$ 4</u>	<u>\$ 4,063</u>
LIABILITIES				
Warrants Outstanding	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	518
Other Accrued Liabilities	-	-	-	149
Due To Other Funds	-	-	-	-
Advances Due to Other Funds	-	1,825	-	-
Customer and Defendant Deposits	-	-	-	-
Payable From Restricted Assets:				
Accrued Bond Interest Payable	-	-	-	-
Unearned Revenue	-	-	-	-
Matured Bonds Payable	-	-	-	-
Total Liabilities	<u>-</u>	<u>1,825</u>	<u>-</u>	<u>667</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	4	-
Committed	6,499	-	-	3,396
Unassigned	-	(675)	-	-
Total Fund Balances	<u>6,499</u>	<u>(675)</u>	<u>4</u>	<u>3,396</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,499</u>	<u>\$ 1,150</u>	<u>\$ 4</u>	<u>\$ 4,063</u>

EXHIBIT C-1
(Continued)

Special Revenue Funds

Grants and Special Programs	Highway User Revenue Fund	Mesa Arts Center Restoration	Mesa Housing Authority	Quality of Life Sales Tax	Street Sales Tax	Total Special Revenue Funds
\$ 2,218	\$ -	\$ 1,368	\$ 794	\$ 2,069	\$ 50,095	\$ 68,153
1,307	7	-	195	1,634	2,073	5,301
1	-	3	-	1	90	117
1,799	2,910	-	3,087	-	-	7,796
10	-	-	-	-	3	13
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	73	-	-	73
-	-	-	-	-	-	-
<u>\$ 5,335</u>	<u>\$ 2,917</u>	<u>\$ 1,371</u>	<u>\$ 4,149</u>	<u>\$ 3,704</u>	<u>\$ 52,261</u>	<u>\$ 81,453</u>
\$ -	\$ -	\$ -	\$ 8	\$ -	\$ -	\$ 8
253	373	13	450	-	1,288	2,895
-	45	-	1,205	-	2,907	4,306
-	286	-	-	-	-	286
-	-	-	-	-	-	1,825
-	-	-	-	-	6,124	6,124
-	-	-	-	-	-	-
837	-	37	1,063	-	-	1,937
-	-	-	-	-	-	-
<u>1,090</u>	<u>704</u>	<u>50</u>	<u>2,726</u>	<u>-</u>	<u>10,319</u>	<u>17,381</u>
-	-	-	254	-	-	254
-	-	-	254	-	-	254
10	-	-	-	-	3	13
3,804	2,213	-	1,169	3,704	41,939	52,833
431	-	1,321	-	-	-	11,647
-	-	-	-	-	-	(675)
<u>4,245</u>	<u>2,213</u>	<u>1,321</u>	<u>1,169</u>	<u>3,704</u>	<u>41,942</u>	<u>63,818</u>
<u>\$ 5,335</u>	<u>\$ 2,917</u>	<u>\$ 1,371</u>	<u>\$ 4,149</u>	<u>\$ 3,704</u>	<u>\$ 52,261</u>	<u>\$ 81,453</u>

CITY OF MESA, ARIZONA
EXHIBIT C-1 (Continued)
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014
(in thousands)

Capital Projects Funds

	Eastmark Capital Projects	General Capital Projects	Law Enforcement	Parks Bond Construction	Storm Sewer
ASSETS					
Pooled Cash and Investments	\$ 3,268	\$ 7,287	\$ 17,228	\$ 11,286	\$ -
Accounts Receivable (Net of Allowances)	-	-	-	-	-
Accrued Interest Receivable	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Prepaid Costs	-	10	-	-	-
Deposits	-	-	-	-	-
Restricted Assets:					
Pooled Cash and Investments	-	-	-	-	-
Cash with Fiscal Agent	-	-	-	-	-
Cash with Trustee	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Total Assets	<u>\$ 3,268</u>	<u>\$ 7,297</u>	<u>\$ 17,228</u>	<u>\$ 11,286</u>	<u>\$ -</u>
LIABILITIES					
Warrants Outstanding	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	60	657	18	59	-
Other Accrued Liabilities	3,201	-	24	66	-
Due To Other Funds	-	-	-	-	-
Advances Due to Other Funds	-	-	-	-	-
Customer and Defendant Deposits	-	-	-	-	-
Payable From Restricted Assets:					
Accrued Bond Interest Payable	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Matured Bonds Payable	-	-	-	-	-
Total Liabilities	<u>3,261</u>	<u>657</u>	<u>42</u>	<u>125</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	-	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	10	-	-	-
Restricted	7	-	17,186	11,161	-
Committed	-	6,630	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>7</u>	<u>6,640</u>	<u>17,186</u>	<u>11,161</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,268</u>	<u>\$ 7,297</u>	<u>\$ 17,228</u>	<u>\$ 11,286</u>	<u>\$ -</u>

EXHIBIT C-1
(Continued)

Capital Projects Funds			Debt Service Funds			
Streets	Vehicle Replacement	Total Capital Projects Funds	Capital Lease Redemption	Eastmark Debt Service	General Obligation Bond Redemption	Highway Project Advancement Notes
\$ 13,884	\$ 3,633	\$ 56,586	\$ -	\$ -	\$ -	\$ -
144	-	144	-	-	-	-
-	-	-	-	-	-	-
18,996	-	18,996	-	-	-	-
-	-	10	-	-	-	-
321	-	321	-	-	-	-
-	-	-	-	212	71	7,466
-	-	-	-	126	24,667	27,352
-	-	-	-	-	-	10,312
-	-	-	-	2,649	-	-
-	-	-	-	-	612	68,043
<u>\$ 33,345</u>	<u>\$ 3,633</u>	<u>\$ 76,057</u>	<u>\$ -</u>	<u>\$ 2,987</u>	<u>\$ 25,350</u>	<u>\$ 113,173</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,310	176	3,280	-	-	-	-
546	-	3,837	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	70	6,474	2,352
-	-	-	-	-	-	7,819
-	-	-	-	65	18,193	25,000
<u>2,856</u>	<u>176</u>	<u>7,117</u>	<u>-</u>	<u>135</u>	<u>24,667</u>	<u>35,171</u>
-	-	-	-	2,647	313	-
-	-	-	-	2,647	313	-
-	-	10	-	-	-	-
30,489	725	59,568	-	205	-	78,002
-	2,732	9,362	-	-	370	-
-	-	-	-	-	-	-
<u>30,489</u>	<u>3,457</u>	<u>68,940</u>	<u>-</u>	<u>205</u>	<u>370</u>	<u>78,002</u>
<u>\$ 33,345</u>	<u>\$ 3,633</u>	<u>\$ 76,057</u>	<u>\$ -</u>	<u>\$ 2,987</u>	<u>\$ 25,350</u>	<u>\$ 113,173</u>

CITY OF MESA, ARIZONA
EXHIBIT C-1 (Continued)
 NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2014
 (in thousands)

	Debt Service Funds			
	Highway User Revenue Bond Redemption	Special Assessment Bond Redemption	Total Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS				
Pooled Cash and Investments	\$ -	\$ -	\$ -	\$ 124,739
Accounts Receivable (Net of Allowances)	-	-	-	5,445
Accrued Interest Receivable	-	-	-	117
Due from Other Governments	-	-	-	26,792
Prepaid Costs	-	-	-	23
Deposits	-	-	-	321
Restricted Assets:				
Pooled Cash and Investments	1	68	7,818	7,818
Cash with Fiscal Agent	9,681	31	61,857	61,857
Cash with Trustee	-	-	10,312	10,312
Accounts Receivable	-	3,239	5,888	5,961
Due from Other Governments	-	-	68,655	68,655
Total Assets	<u>\$ 9,682</u>	<u>\$ 3,338</u>	<u>\$ 154,530</u>	<u>\$ 312,040</u>
LIABILITIES				
Warrants Outstanding	\$ -	\$ -	\$ -	\$ 8
Accounts Payable	-	-	-	6,175
Other Accrued Liabilities	-	-	-	8,143
Due To Other Funds	-	-	-	286
Advances Due to Other Funds	-	-	-	1,825
Customer and Defendant Deposits	-	-	-	6,124
Payable From Restricted Assets:				
Accrued Bond Interest Payable	2,736	99	11,731	11,731
Unearned Revenue	-	-	7,819	9,756
Matured Bonds Payable	6,945	-	50,203	50,203
Total Liabilities	<u>9,681</u>	<u>99</u>	<u>69,753</u>	<u>94,251</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	3,239	6,199	6,453
Total Deferred Inflows of Resources	<u>-</u>	<u>3,239</u>	<u>6,199</u>	<u>6,453</u>
FUND BALANCES				
Nonspendable	-	-	-	23
Restricted	1	-	78,208	190,609
Committed	-	-	370	21,379
Unassigned	-	-	-	(675)
Total Fund Balances	<u>1</u>	<u>-</u>	<u>78,578</u>	<u>211,336</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,682</u>	<u>\$ 3,338</u>	<u>\$ 154,530</u>	<u>\$ 312,040</u>



CITY OF MESA, ARIZONA

EXHIBIT C-2

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

Special Revenue Funds

	Cemetery	Development Impact Fees	Eastmark Community Facilities District	Environmental Compliance
Revenues:				
Sales Taxes	\$ -	\$ -	\$ -	\$ -
Property Taxes	-	-	-	-
Occupancy Taxes	-	-	-	-
Special Assessments	-	-	2	-
Licenses and Permits	-	3,172	-	-
Intergovernmental	-	-	-	-
Charges for Services	97	-	-	10,667
Fines and Forfeitures	-	-	-	-
Investment Income	58	32	-	24
Contributions	-	-	-	-
Miscellaneous Revenues	-	-	-	1
Total Revenues	<u>155</u>	<u>3,204</u>	<u>2</u>	<u>10,692</u>
Expenditures:				
Current:				
General Government	-	-	54	388
Public Safety	-	-	-	1,462
Cultural-Recreational	-	-	-	5,190
Community Environment	-	-	-	2,447
Debt Service:				
Principal Retirement	-	-	-	-
Interest on Bonds	-	-	-	-
Interest on Leases	-	-	-	-
Interest on Notes	-	-	-	-
Cost of Issuance	-	-	-	-
Capital Outlay	-	41	-	234
Total Expenditures	<u>-</u>	<u>41</u>	<u>54</u>	<u>9,721</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>155</u>	<u>3,163</u>	<u>(52)</u>	<u>971</u>
Other Financing Sources (Uses):				
Transfers In	-	37	-	-
Transfers Out	-	(3,146)	-	-
Face Amount of Bonds Issued	-	-	-	-
Premium on Issuance of Bonds	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,109)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	155	54	(52)	971
Fund Balances - Beginning	<u>6,344</u>	<u>(729)</u>	<u>56</u>	<u>2,425</u>
Fund Balances - Ending	<u>\$ 6,499</u>	<u>\$ (675)</u>	<u>\$ 4</u>	<u>\$ 3,396</u>

EXHIBIT C-2

(Continued)

Special Revenue Funds

Grants and Special Programs	Highway User Revenue Fund	Mesa Arts Center Restoration	Mesa Housing Authority	Quality of Life Sales Tax	Street Sales Tax	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 20,639	\$ 24,751	\$ 45,390
-	-	-	-	-	-	-
1,894	-	-	-	-	-	1,894
-	-	-	-	-	-	2
-	-	-	-	80	189	3,441
6,596	30,913	-	17,964	-	-	55,473
182	9	-	-	-	248	11,203
814	-	284	-	-	-	1,098
7	1	14	-	12	281	429
1,042	-	-	-	-	-	1,042
2,585	-	-	7	-	221	2,814
<u>13,120</u>	<u>30,923</u>	<u>298</u>	<u>17,971</u>	<u>20,731</u>	<u>25,690</u>	<u>122,786</u>
1,684	-	-	-	-	3,637	5,763
4,726	-	-	166	19,263	314	25,931
1,022	-	70	-	-	11	6,293
118	15,984	-	17,742	-	12,232	48,523
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,564	282	384	78	-	7,178	12,761
<u>12,114</u>	<u>16,266</u>	<u>454</u>	<u>17,986</u>	<u>19,263</u>	<u>23,372</u>	<u>99,271</u>
1,006	14,657	(156)	(15)	1,468	2,318	23,515
-	-	-	-	-	-	37
-	(12,418)	-	-	-	(725)	(16,289)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>(12,418)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(725)</u>	<u>(16,252)</u>
1,006	2,239	(156)	(15)	1,468	1,593	7,263
3,239	(26)	1,477	1,184	2,236	40,349	56,555
<u>\$ 4,245</u>	<u>\$ 2,213</u>	<u>\$ 1,321</u>	<u>\$ 1,169</u>	<u>\$ 3,704</u>	<u>\$ 41,942</u>	<u>\$ 63,818</u>

EXHIBIT C-2 (Continued)

(Continued)

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

Capital Projects Funds

	Eastmark Capital Projects	General Capital Projects	Law Enforcement	Parks Bond Construction	Storm Sewer
Revenues:					
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Property Taxes	-	-	-	-	-
Occupancy Taxes	-	-	-	-	-
Special Assessments	4	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Investment Income	-	-	-	-	-
Contributions	66	-	-	-	-
Miscellaneous Revenues	-	11	-	-	-
Total Revenues	<u>70</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Cultural-Recreational	-	-	-	-	-
Community Environment	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest on Bonds	-	-	-	-	-
Interest on Leases	-	-	-	-	-
Interest on Notes	-	-	-	-	-
Cost of Issuance	226	-	209	135	-
Capital Outlay	5,480	8,930	2,022	14,497	234
Total Expenditures	<u>5,706</u>	<u>8,930</u>	<u>2,231</u>	<u>14,632</u>	<u>234</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,636)</u>	<u>(8,919)</u>	<u>(2,231)</u>	<u>(14,632)</u>	<u>(234)</u>
Other Financing Sources (Uses):					
Transfers In	-	8,293	-	-	-
Transfers Out	(20)	-	-	-	-
Face Amount of Bonds Issued	3,250	-	15,655	10,155	-
Premium on Issuance of Bonds	49	-	159	103	-
Total Other Financing Sources (Uses)	<u>3,279</u>	<u>8,293</u>	<u>15,814</u>	<u>10,258</u>	<u>-</u>
Net Change in Fund Balances	(2,357)	(626)	13,583	(4,374)	(234)
Fund Balances - Beginning	<u>2,364</u>	<u>7,266</u>	<u>3,603</u>	<u>15,535</u>	<u>234</u>
Fund Balances - Ending	<u>\$ 7</u>	<u>\$ 6,640</u>	<u>\$ 17,186</u>	<u>\$ 11,161</u>	<u>\$ -</u>

Capital Projects Funds			Debt Service Funds			
Streets	Vehicle Replacement	Total Capital Projects Funds	Capital Lease Redemption	Eastmark Debt Service	General Obligation Bond Redemption	Highway Project Advancement Notes
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	22,500	-
-	-	-	-	-	-	-
-	-	4	-	195	-	-
-	-	-	-	-	-	-
13,863	-	13,863	-	-	-	3,663
74	-	74	-	-	-	-
-	-	-	-	-	780	-
3	14	17	-	-	-	12
39	-	105	-	-	-	-
-	190	201	-	-	11	-
<u>13,979</u>	<u>204</u>	<u>14,264</u>	<u>-</u>	<u>195</u>	<u>23,291</u>	<u>3,675</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	68	65	18,193	45,000
-	-	-	-	131	13,087	-
-	-	-	7	-	-	-
-	-	-	-	-	-	4,790
157	-	727	-	-	-	-
45,009	5,871	82,043	-	-	-	-
<u>45,166</u>	<u>5,871</u>	<u>82,770</u>	<u>75</u>	<u>196</u>	<u>31,280</u>	<u>49,790</u>
<u>(31,187)</u>	<u>(5,667)</u>	<u>(68,506)</u>	<u>(75)</u>	<u>(1)</u>	<u>(7,989)</u>	<u>(46,115)</u>
-	3,225	11,518	75	20	8,221	-
-	-	(20)	-	-	-	-
11,740	-	40,800	-	-	-	-
119	-	430	-	-	-	-
<u>11,859</u>	<u>3,225</u>	<u>52,728</u>	<u>75</u>	<u>20</u>	<u>8,221</u>	<u>-</u>
(19,328)	(2,442)	(15,778)	-	19	232	(46,115)
<u>49,817</u>	<u>5,899</u>	<u>84,718</u>	<u>-</u>	<u>186</u>	<u>138</u>	<u>124,117</u>
<u>\$ 30,489</u>	<u>\$ 3,457</u>	<u>\$ 68,940</u>	<u>\$ -</u>	<u>\$ 205</u>	<u>\$ 370</u>	<u>\$ 78,002</u>

CITY OF MESA, ARIZONA

EXHIBIT C-2 (Continued)

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Debt Service Funds			
	Highway User Revenue Bond Redemption	Special Assessment Bond Redemption	Total Debt Service Funds	Total Nonmajor Governmental Funds
Revenues:				
Sales Taxes	\$ -	\$ -	\$ -	\$ 45,390
Property Taxes	-	-	22,500	22,500
Occupancy Taxes	-	-	-	1,894
Special Assessments	-	861	1,056	1,062
Licenses and Permits	-	-	-	3,441
Intergovernmental	-	-	3,663	72,999
Charges for Services	-	-	-	11,277
Fines and Forfeitures	-	-	780	1,878
Investment Income	-	-	12	458
Contributions	-	-	-	1,147
Miscellaneous Revenues	-	-	11	3,026
Total Revenues	-	861	28,022	165,072
Expenditures:				
Current:				
General Government	-	-	-	5,763
Public Safety	-	-	-	25,931
Cultural-Recreational	-	-	-	6,293
Community Environment	-	-	-	48,523
Debt Service:				
Principal Retirement	6,945	744	71,015	71,015
Interest on Bonds	5,472	217	18,907	18,907
Interest on Leases	-	-	7	7
Interest on Notes	-	-	4,790	4,790
Cost of Issuance	-	-	-	727
Capital Outlay	-	-	-	94,804
Total Expenditures	12,417	961	94,719	276,760
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,417)	(100)	(66,697)	(111,688)
Other Financing Sources (Uses):				
Transfers In	12,418	100	20,834	32,389
Transfers Out	-	-	-	(16,309)
Face Amount of Bonds Issued	-	-	-	40,800
Premium on Issuance of Bonds	-	-	-	430
Total Other Financing Sources (Uses)	12,418	100	20,834	57,310
Net Change in Fund Balances	1	-	(45,863)	(54,378)
Fund Balances - Beginning	-	-	124,441	265,714
Fund Balances - Ending	\$ 1	\$ -	\$ 78,578	\$ 211,336

INTERNAL SERVICE FUNDS

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

Warehouse, Maintenance and Services Fund was established to finance and account for services and commodities furnished by Fleet Support, Materials and Supply, and Printing and Graphics.

Property and Public Liability Self-Insurance Fund was established to account for the cost of claims incurred by the City under a self-insurance program.

Workers' Compensation Self-Insurance Fund was established to account for the costs of maintaining a self-insurance program for industrial insurance at the City.

Employee Benefit Self-Insurance Fund was established to account for the costs of maintaining the City's self-insurance health program.

CITY OF MESA, ARIZONA
EXHIBIT C-3
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014
(in thousands)

	Warehouse, Maintenance and Services	Property and Public Liability Self Insurance
ASSETS		
Current Assets:		
Pooled Cash and Investments	\$ 1,122	\$ 9,812
Accounts Receivable	128	-
Accrued Interest Receivable	-	15
Due from Other Governments	5	-
Inventory	5,841	-
Prepaid Costs	1	510
Total Current Assets	<u>7,097</u>	<u>10,337</u>
Capital Assets:		
Buildings	2,061	-
Other Improvements	430	-
Machinery and Equipment	6,489	-
Intangibles	3	-
Infrastructure	32	-
Construction in Progress	252	-
Less Accumulated Depreciation and Amortization	(7,609)	-
Net Capital Assets	<u>1,658</u>	<u>-</u>
Total Assets	<u>8,755</u>	<u>10,337</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Warrants Outstanding	-	24
Accounts Payable	772	40
Accrued Expenses	10	-
Other Accrued Expenses:		
Estimated Liability For Claims:		
Incurred-Not Reported	-	3,786
Incurred and Pending	-	5,795
Current Portion of Compensated Absences	1	-
Total Current Liabilities	<u>783</u>	<u>9,645</u>
Long-Term Liabilities		
Compensated Absences	632	-
Post Employment Benefits	8,746	-
Total Long-Term Liabilities	<u>9,378</u>	<u>-</u>
Total Liabilities	<u>10,161</u>	<u>9,645</u>
Net Position:		
Net Investment in Capital Assets	1,658	-
Unrestricted	(3,064)	692
Total Net Position	<u>\$ (1,406)</u>	<u>\$ 692</u>

EXHIBIT C-3
(Continued)

Workers' Compensation Self Insurance	Employee Benefits Self Insurance	Total
\$ 6,316	\$ 48,650	\$ 65,900
-	1,977	2,105
6	68	89
-	-	5
-	-	5,841
204	-	715
<u>6,526</u>	<u>50,695</u>	<u>74,655</u>
-	-	2,061
-	-	430
-	-	6,489
-	-	3
-	-	32
-	-	252
-	-	(7,609)
-	-	<u>1,658</u>
<u>6,526</u>	<u>50,695</u>	<u>76,313</u>
42	466	532
96	1,192	2,100
-	210	220
6,232	4,669	14,687
16,575	-	22,370
-	-	1
<u>22,945</u>	<u>6,537</u>	<u>39,910</u>
-	-	632
-	-	<u>8,746</u>
-	-	<u>9,378</u>
<u>22,945</u>	<u>6,537</u>	<u>49,288</u>
-	-	1,658
(16,419)	44,158	25,367
<u>\$ (16,419)</u>	<u>\$ 44,158</u>	<u>\$ 27,025</u>

CITY OF MESA, ARIZONA

EXHIBIT C-4

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Warehouse, Maintenance and Services	Property and Public Liability Self Insurance
Operating Revenues:		
Charges For Services:		
Warehouse	\$ 7,380	\$ -
Fleet Support Services	20,137	-
Printing and Graphics	782	-
Self-Insurance Contributions:		
Employee	-	-
City	-	3,509
State Retirement System	-	-
Other	304	-
Miscellaneous Revenue	14	-
Total Operating Revenues	<u>28,617</u>	<u>3,509</u>
Operating Expenses:		
Warehouse	7,334	-
Fleet Support Services	21,224	-
Printing and Graphics	937	-
Administrative Costs	-	969
Claims and Premiums Paid	-	642
Total Operating Expenses	<u>29,495</u>	<u>1,611</u>
Operating Income (Loss) Before Depreciation	(878)	1,898
Depreciation	<u>(330)</u>	<u>-</u>
Operating Income (Loss)	<u>(1,208)</u>	<u>1,898</u>
Nonoperating Revenues (Expense):		
Investment Income	-	65
Gain (Loss) on Disposal of Capital Assets	<u>6</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>6</u>	<u>65</u>
Income (Loss) Before Transfers and Capital Contributions	(1,202)	1,963
Capital Contributions	<u>93</u>	<u>-</u>
Change in Net Position	(1,109)	1,963
Total Net Position - Beginning	<u>(297)</u>	<u>(1,271)</u>
Total Net Position - Ending	<u><u>\$ (1,406)</u></u>	<u><u>\$ 692</u></u>

EXHIBIT C-4
(Continued)

Workers' Compensation Self Insurance	Employee Benefits Self Insurance	Total
\$ -	\$ -	\$ 7,380
-	-	20,137
-	-	782
-	14,578	14,578
4,400	44,304	52,213
-	4,001	4,001
98	532	934
-	-	14
<u>4,498</u>	<u>63,415</u>	<u>100,039</u>
-	-	7,334
-	-	21,224
-	-	937
930	4,288	6,187
4,848	54,954	60,444
<u>5,778</u>	<u>59,242</u>	<u>96,126</u>
(1,280)	4,173	3,913
-	-	(330)
<u>(1,280)</u>	<u>4,173</u>	<u>3,583</u>
28	284	377
-	-	6
<u>28</u>	<u>284</u>	<u>383</u>
(1,252)	4,457	3,966
-	-	93
<u>(1,252)</u>	<u>4,457</u>	<u>4,059</u>
<u>(15,167)</u>	<u>39,701</u>	<u>22,966</u>
<u>\$ (16,419)</u>	<u>\$ 44,158</u>	<u>\$ 27,025</u>

CITY OF MESA, ARIZONA

EXHIBIT C-5

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Warehouse, Maintenance and Services	Property and Public Liability Self Insurance
Cash Flows from Operating Activities:		
Cash Received from Users	\$ 28,489	\$ 3,509
Cash Payments to Suppliers	(20,892)	(4,528)
Cash Payments to Employees	(8,210)	(930)
Net Cash Provided by/(Used for) Operating Activities	<u>(613)</u>	<u>(1,949)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(58)	-
Contributions	93	-
Net Cash Provided by / (Used) for Capital and Related Financing Activities	<u>35</u>	<u>-</u>
Cash Flows from Investing Activities:		
Interest Received on Investments	-	61
Net Cash Provided by Investing Activities	<u>-</u>	<u>61</u>
Net Increase in Cash and Cash Equivalents	(578)	(1,888)
Pooled Cash and Investments at Beginning of Year	<u>1,700</u>	<u>11,700</u>
Pooled Cash and Investments at End of Year	<u><u>\$ 1,122</u></u>	<u><u>\$ 9,812</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (1,208)	\$ 1,898
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	330	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(128)	-
(Increase) Decrease in Inventory	268	-
(Increase) Decrease in Prepaid Costs	-	(97)
(Decrease) Increase in Accounts Payable	(797)	35
(Decrease) Increase in Other Accrued Expenses	922	(3,785)
Total Adjustments	<u>595</u>	<u>(3,847)</u>
Net Cash Provided by/(Used for) Operating Activities	<u><u>\$ (613)</u></u>	<u><u>\$ (1,949)</u></u>

EXHIBIT C-5
(Continued)

Workers' Compensation Self Insurance	Employee Benefits Self Insurance	Total
\$ 4,499	\$ 63,332	\$ 99,829
(4,274)	(56,728)	(86,422)
(398)	(1,109)	(10,647)
(173)	5,495	2,760
-	-	(58)
-	-	93
-	-	35
27	267	355
27	267	355
(146)	5,762	3,150
6,462	42,888	62,750
<u>\$ 6,316</u>	<u>\$ 48,650</u>	<u>\$ 65,900</u>
\$ (1,280)	\$ 4,173	\$ 3,583
-	-	330
-	(83)	(211)
-	-	268
(47)	-	(144)
53	582	(127)
1,101	823	(939)
1,107	1,322	(823)
<u>\$ (173)</u>	<u>\$ 5,495</u>	<u>\$ 2,760</u>

FIDUCIARY FUND

The Fiduciary Fund accounts for assets held by the City in a custodial capacity for the benefit of a third party and cannot be used to address activities or obligations of the City.

The **Payroll Agency Fund** accounts for all payroll transactions.

CITY OF MESA, ARIZONA

EXHIBIT C-6

AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
PAYROLL AGENCY FUND				
Assets:				
Pooled Cash and Investments	\$ 13,390	\$ 629,340	\$ 628,669	\$ 14,061
Total Assets	<u>\$ 13,390</u>	<u>\$ 629,340</u>	<u>\$ 628,669</u>	<u>\$ 14,061</u>
Liabilities:				
Accounts Payable	\$ 1,532	\$ 44,697	\$ 44,510	\$ 1,719
Accrued Payroll Payable	11,858	388,731	388,247	12,342
Total Liabilities	<u>\$ 13,390</u>	<u>\$ 433,428</u>	<u>\$ 432,757</u>	<u>\$ 14,061</u>



Supplemental Information

Higher Education Starts Here



Albright College



Benedictine University



Upper Iowa University



Wilkes University

CITY OF MESA, ARIZONA

EXHIBIT D-1

GRANTS AND SPECIAL PROGRAMS

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Occupancy Taxes	\$ 300	\$ 300	\$ 1,894	\$ 1,594
Special Assessments	17,700	17,700	-	(17,700)
Licenses and Permits	598	598	-	(598)
Intergovernmental	32,554	32,554	6,596	(25,958)
Charges for Services	239	239	182	(57)
Fines and Forfeitures	267	267	814	547
Investment Income	-	-	7	7
Contributions	387	387	1,042	655
Miscellaneous Revenues	3,062	3,062	2,585	(477)
Total Revenues	<u>55,107</u>	<u>55,107</u>	<u>13,120</u>	<u>(41,987)</u>
Expenditures:				
Current:				
General Government	36,364	36,761	1,684	35,077
Public Safety	9,768	8,720	4,726	3,994
Cultural-Recreational	1,363	1,394	1,022	372
Community Environment	200	228	118	110
Capital Outlay	7,317	6,521	4,564	1,957
Total Expenditures	<u>55,012</u>	<u>53,624</u>	<u>12,114</u>	<u>41,510</u>
Net Change in Fund Balances	95	1,483	1,006	(477)
Fund Balances - Beginning	<u>7,458</u>	<u>7,458</u>	<u>3,239</u>	<u>(4,219)</u>
Fund Balance - Ending	<u>\$ 7,553</u>	<u>\$ 8,941</u>	<u>\$ 4,245</u>	<u>\$ (4,696)</u>

CITY OF MESA, ARIZONA

EXHIBIT D-2

HIGHWAY USER REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 32,394	\$ 32,394	\$ 30,913	\$ (1,481)
Charges for Services	-	-	9	9
Investment Income	-	-	1	1
Total Revenues	<u>32,394</u>	<u>32,394</u>	<u>30,923</u>	<u>(1,471)</u>
Expenditures:				
Current:				
Community Environment	20,148	20,148	15,984	4,164
Capital Outlay	-	-	282	(282)
Total Expenditures	<u>20,148</u>	<u>20,148</u>	<u>16,266</u>	<u>3,882</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>12,246</u>	<u>12,246</u>	<u>14,657</u>	<u>2,411</u>
Other Financing Uses:				
Transfers Out	(12,418)	(12,418)	(12,418)	-
Total Other Financing Uses	<u>(12,418)</u>	<u>(12,418)</u>	<u>(12,418)</u>	<u>-</u>
Net Change in Fund Balances	(172)	(172)	2,239	2,411
Fund Balances - Beginning	<u>172</u>	<u>172</u>	<u>(26)</u>	<u>(198)</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,213</u>	<u>\$ 2,213</u>

CITY OF MESA, ARIZONA

EXHIBIT D-3

MESA HOUSING AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 32,332	\$ 32,332	\$ 17,964	\$ (14,368)
Charges for Services	1	1	-	(1)
Investment Income	1	1	-	(1)
Miscellaneous Revenues	-	-	7	7
Total Revenues	<u>32,334</u>	<u>32,334</u>	<u>17,971</u>	<u>(14,363)</u>
Expenditures:				
Current:				
Public Safety	149	203	166	37
Community Environment	33,745	33,606	17,742	15,864
Capital Outlay	-	628	78	550
Total Expenditures	<u>33,894</u>	<u>34,437</u>	<u>17,986</u>	<u>16,451</u>
Net Change in Fund Balances	(1,560)	(2,103)	(15)	2,088
Fund Balances - Beginning	<u>1,659</u>	<u>1,659</u>	<u>1,184</u>	<u>(475)</u>
Fund Balance - Ending	<u>\$ 99</u>	<u>\$ (444)</u>	<u>\$ 1,169</u>	<u>\$ 1,613</u>

CITY OF MESA, ARIZONA

EXHIBIT D-4

QUALITY OF LIFE SALES TAX

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Sales Taxes	\$ 19,246	\$ 19,246	\$ 20,639	\$ 1,393
Licenses and Permits	-	-	80	80
Investment Income	-	-	12	12
Total Revenues	<u>19,246</u>	<u>19,246</u>	<u>20,731</u>	<u>1,485</u>
Expenditures:				
Current:				
Public Safety	19,246	19,311	19,263	48
Total Expenditures	<u>19,246</u>	<u>19,311</u>	<u>19,263</u>	<u>48</u>
Net Change in Fund Balances	-	(65)	1,468	1,533
Fund Balances - Beginning	-	-	2,236	2,236
Fund Balance - Ending	<u>\$ -</u>	<u>\$ (65)</u>	<u>\$ 3,704</u>	<u>\$ 3,769</u>

CITY OF MESA, ARIZONA

EXHIBIT D-5

STREET SALES TAX

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Sales Taxes	\$ 23,033	\$ 23,033	\$ 24,751	\$ 1,718
Licenses and Permits	175	175	189	14
Charges for Services	94	94	248	154
Fines and Forfeitures	204	204	-	(204)
Investment Income	71	71	281	210
Miscellaneous Revenues	2	2	221	219
Total Revenues	<u>23,579</u>	<u>23,579</u>	<u>25,690</u>	<u>2,111</u>
Expenditures:				
Current:				
General Government	4,863	5,065	3,637	1,428
Public Safety	319	319	314	5
Cultural-Recreational	11	11	11	-
Community Environment	28,377	24,216	12,232	11,984
Capital Outlay	470	1,583	7,178	(5,595)
Total Expenditures	<u>34,040</u>	<u>31,194</u>	<u>23,372</u>	<u>7,822</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,461)</u>	<u>(7,615)</u>	<u>2,318</u>	<u>9,933</u>
Other Financing Uses:				
Transfers Out	<u>(725)</u>	<u>(725)</u>	<u>(725)</u>	<u>-</u>
Total Other Financing Uses	<u>(725)</u>	<u>(725)</u>	<u>(725)</u>	<u>-</u>
Net Change in Fund Balances	(11,186)	(8,340)	1,593	9,933
Fund Balances - Beginning	<u>28,388</u>	<u>28,388</u>	<u>40,349</u>	<u>11,961</u>
Fund Balance - Ending	<u>\$ 17,202</u>	<u>\$ 20,048</u>	<u>\$ 41,942</u>	<u>\$ 21,894</u>



Statistical Section

Riverview Park Splash Pad



STATISTICAL SECTION

This part of the City of Mesa's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	108
Revenue Capacity These schedules contain information to help readers assess the City's most significant local revenue source, the sales tax.	120
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.	123
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	131
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	133

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF MESA, ARIZONA
TABLE I
NET POSITION BY COMPONENTS
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(in thousands)

	2004-05	2005-06	2006-07	2007-08
GOVERNMENTAL ACTIVITIES				
Net Investment in Capital Assets	\$ 769,924	\$ 765,875	\$ 791,592	\$ 794,720
Restricted	68,487	84,386	95,107	86,252
Unrestricted	<u>62,539</u>	<u>85,735</u>	<u>128,548</u>	<u>125,128</u>
Total Governmental Activities Net Position	<u>\$ 900,950</u>	<u>\$ 935,996</u>	<u>\$ 1,015,247</u>	<u>\$ 1,006,100</u>
BUSINESS-TYPE ACTIVITIES				
Net Investment in Capital Assets	\$ 424,821	\$ 390,100	\$ 366,498	\$ 410,074
Restricted	101,566	89,383	96,756	94,133
Unrestricted	<u>219,104</u>	<u>268,388</u>	<u>308,375</u>	<u>308,216</u>
Total Business-type Activities	<u>\$ 745,491</u>	<u>\$ 747,871</u>	<u>\$ 771,629</u>	<u>\$ 812,423</u>
PRIMARY GOVERNMENT				
Net Investment in Capital Assets	\$ 1,194,745	\$ 1,155,975	\$ 1,158,090	\$ 1,204,794
Restricted	170,053	173,769	191,863	180,385
Unrestricted	<u>281,643</u>	<u>354,123</u>	<u>436,923</u>	<u>433,344</u>
Total Primary Government	<u>\$ 1,646,441</u>	<u>\$ 1,683,867</u>	<u>\$ 1,786,876</u>	<u>\$ 1,818,523</u>

TABLE I
(Continued)

2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
\$ 791,523	\$ 844,777	\$ 872,302	\$ 913,702	\$ 902,397	\$ 866,332
92,533	86,955	39,296	41,257	56,719	60,555
91,363	3,651	(6,376)	(96,986)	(184,355)	(120,803)
<u>\$ 975,419</u>	<u>\$ 935,383</u>	<u>\$ 905,222</u>	<u>\$ 857,973</u>	<u>\$ 774,761</u>	<u>\$ 806,084</u>
\$ 413,944	\$ 434,814	\$ 430,436	\$ 412,016	\$ 346,352	\$ 393,720
82,697	47,011	55,873	69,739	37,795	43,023
278,892	271,706	258,131	254,189	271,619	178,702
<u>\$ 775,533</u>	<u>\$ 753,531</u>	<u>\$ 744,440</u>	<u>\$ 735,944</u>	<u>\$ 655,766</u>	<u>\$ 615,445</u>
\$ 1,205,467	\$ 1,279,591	\$ 1,302,738	\$ 1,325,718	\$ 1,248,749	\$ 1,260,052
175,230	133,966	95,169	110,996	94,514	103,578
370,255	275,357	251,755	157,203	87,264	57,899
<u>\$ 1,750,952</u>	<u>\$ 1,688,914</u>	<u>\$ 1,649,662</u>	<u>\$ 1,593,917</u>	<u>\$ 1,430,527</u>	<u>\$ 1,421,529</u>

CITY OF MESA, ARIZONA
TABLE II
 CHANGES IN NET POSITION
 LAST TEN FISCAL YEARS
 (accrual basis of accounting)
 (in thousands)

EXPENSES	2004-05	2005-06	2006-07	2007-08
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 48,722	\$ 44,568	\$ 48,201	\$ 63,633
Public Safety	204,366	212,011	232,100	292,396
Cultural-Recreational	62,870	65,389	64,592	72,999
Community Environment	86,363	97,613	91,664	99,415
Interest in Long-term Debt	15,504	16,061	18,037	19,083
Total Governmental Activities Expenses	<u>417,825</u>	<u>435,642</u>	<u>454,594</u>	<u>547,526</u>
BUSINESS-TYPE ACTIVITIES:				
Electric	27,119	26,817	26,281	31,612
Gas	33,830	38,743	37,826	43,247
Water	54,248	54,111	59,965	59,225
Wastewater	47,799	67,181	60,603	61,293
Solid Waste	23,864	25,070	27,891	32,877
Airport	2,120	4,194	2,721	3,317
Golf Course	2,966	2,524	2,602	3,012
Convention Center	4,260	4,822	5,667	5,447
Hohokam Stadium/Fitch Complex	-	-	-	-
Cubs Stadium	-	-	-	-
District Cooling	-	67	1,090	769
Economic Investment	-	-	-	-
Total Business-type Activities Expenses	<u>196,206</u>	<u>223,529</u>	<u>224,646</u>	<u>240,799</u>
Total Primary Government Expenses	<u>\$ 614,031</u>	<u>\$ 659,171</u>	<u>\$ 679,240</u>	<u>\$ 788,325</u>

TABLE II
(Continued)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 54,226	\$ 54,863	\$ 59,552	\$ 57,472	\$ 105,410	\$ 103,819
290,928	288,929	273,320	287,918	287,451	277,614
67,039	54,010	54,550	57,171	61,717	49,275
121,736	104,096	106,434	97,593	129,164	125,700
18,659	20,013	21,078	21,631	23,443	24,431
<u>552,588</u>	<u>521,911</u>	<u>514,934</u>	<u>521,785</u>	<u>607,185</u>	<u>580,839</u>
27,634	27,106	26,817	29,751	28,897	30,044
35,992	35,466	36,020	34,275	35,653	35,020
68,956	80,915	82,378	74,162	103,432	93,871
80,349	70,228	63,613	68,540	91,739	65,637
31,953	31,504	31,462	32,485	33,694	32,908
3,703	3,944	3,972	3,737	4,300	4,343
3,083	2,715	2,679	2,589	3,353	2,555
4,558	4,158	3,849	3,486	3,946	3,060
-	7,408	8,324	8,525	9,094	2,879
-	-	15	54	-	6,201
976	1,000	965	974	1,081	1,153
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,653</u>	<u>-</u>
<u>257,204</u>	<u>264,444</u>	<u>260,094</u>	<u>258,578</u>	<u>318,842</u>	<u>277,671</u>
\$ <u><u>809,792</u></u>	\$ <u><u>786,355</u></u>	\$ <u><u>775,028</u></u>	\$ <u><u>780,363</u></u>	\$ <u><u>926,027</u></u>	\$ <u><u>858,510</u></u>

CITY OF MESA, ARIZONA
TABLE II (Continued)
 CHANGES IN NET POSITION
 LAST TEN FISCAL YEARS
 (accrual basis of accounting)
 (in thousands)

PROGRAM REVENUES	2004-05	2005-06	2006-07	2007-08
GOVERNMENTAL ACTIVITIES:				
Charges for services:				
Licenses and Permits	\$ 18,818	\$ 23,145	\$ 20,128	\$ 23,342
Charges for Services	13,048	17,650	22,039	23,703
Fines and Forfeitures	9,247	9,049	10,277	10,761
Other activities	117	282	433	324
Operating Grants and Contributions	60,813	68,784	74,498	63,787
Capital Grants and Contributions	25,513	16,777	44,858	21,916
Total Governmental Activities Program Revenues	127,556	135,687	172,233	143,833
BUSINESS-TYPE ACTIVITIES:				
Charges for services:				
Electric	30,984	36,113	34,519	34,148
Gas	35,131	44,089	45,250	46,540
Water	79,725	88,498	92,007	97,559
Wastewater	46,025	49,618	55,398	53,951
Solid Waste	36,639	38,899	42,895	46,168
Airport	1,941	2,087	2,954	3,192
Golf Course	2,328	2,522	2,457	2,448
Convention Center	2,571	3,728	4,746	3,658
Hohokam Stadium/Fitch Complex	-	-	-	-
Cubs Stadium	-	-	-	-
District Cooling	-	55	193	229
Economic Investment	-	-	-	-
Operating Grants and Contributions	275	141	147	11
Capital Grants and Contributions	15,586	27,692	20,724	80,570
Total Business-type Activities Program Revenues	251,205	293,442	301,290	368,474
Total Primary Government Program Revenues	\$ 378,761	\$ 429,129	473,523	512,307
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (290,269)	\$ (299,955)	\$ (282,361)	\$ (403,693)
Business-type Activities	54,999	69,913	76,644	127,675
Total Primary Government Net Expense	\$ (235,270)	\$ (230,042)	\$ (205,717)	\$ (276,018)

TABLE II
(Continued)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 13,426	\$ 11,824	\$ 12,577	\$ 13,359	\$ 17,693	\$ 18,797
24,740	20,419	20,304	25,779	27,675	32,106
10,215	10,135	11,820	11,294	9,885	9,890
78	9	8	18	2,945	400
63,055	72,812	65,284	60,355	55,312	29,514
<u>35,436</u>	<u>30,343</u>	<u>31,461</u>	<u>23,503</u>	<u>25,049</u>	<u>20,714</u>
<u>146,950</u>	<u>145,542</u>	<u>141,454</u>	<u>134,308</u>	<u>138,559</u>	<u>111,421</u>
35,313	33,079	33,138	34,625	31,075	31,198
41,708	38,924	41,370	39,139	39,125	38,600
95,995	98,806	102,215	113,418	111,933	112,003
54,720	57,699	59,659	64,544	64,413	66,457
46,762	46,685	47,538	47,631	47,369	47,452
2,959	3,125	3,318	3,271	3,484	3,813
2,310	2,265	2,250	2,169	1,472	1,622
2,687	1,971	2,826	2,122	2,597	2,057
-	5,837	6,161	6,074	5,496	36
-	-	52	825	-	174
834	984	945	1,092	975	1,142
-	-	-	-	148	-
101	210	25	2,126	9,401	9,056
<u>31,222</u>	<u>17,782</u>	<u>10,774</u>	<u>15,814</u>	<u>7,997</u>	<u>17,331</u>
<u>314,611</u>	<u>307,367</u>	<u>310,271</u>	<u>332,850</u>	<u>325,485</u>	<u>330,941</u>
<u>461,561</u>	<u>452,909</u>	<u>451,725</u>	<u>467,158</u>	<u>464,044</u>	<u>442,362</u>
\$ (405,638)	\$ (376,369)	\$ (373,480)	\$ (387,477)	\$ (468,626)	\$ (469,418)
<u>57,407</u>	<u>42,923</u>	<u>50,177</u>	<u>74,272</u>	<u>6,643</u>	<u>53,270</u>
<u>\$ (348,231)</u>	<u>\$ (333,446)</u>	<u>\$ (323,303)</u>	<u>\$ (313,205)</u>	<u>\$ (461,983)</u>	<u>\$ (416,148)</u>

CITY OF MESA, ARIZONA
TABLE II (Concluded)
 CHANGES IN NET POSITION
 LAST TEN FISCAL YEARS
 (accrual basis of accounting)
 (in thousands)

**GENERAL REVENUES AND OTHER CHANGES
 IN NET POSITION**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
GOVERNMENTAL ACTIVITIES:				
Sales Taxes	\$ 112,529	\$ 128,372	\$ 155,817	\$ 147,763
Property Taxes	-	-	-	-
Occupancy Taxes	1,857	2,190	2,390	2,395
Unrestricted Intergovernmental Revenues	90,868	103,849	113,049	122,561
Contributions Not Restricted to Specific Programs	10,726	12,206	14,038	14,746
Investment Income	1,905	5,431	7,825	6,282
Miscellaneous	9,741	10,052	7,054	6,679
Transfers	<u>76,360</u>	<u>72,902</u>	<u>61,440</u>	<u>94,121</u>
Total Governmental Activities	<u>303,986</u>	<u>335,002</u>	<u>361,613</u>	<u>394,547</u>
BUSINESS-TYPE ACTIVITIES:				
Occupancy Taxes	-	-	-	-
Investment Income	1,579	4,819	8,125	6,546
Miscellaneous	85	554	429	694
Special Item - Gain on Sale of Capital Assets	32,678	-	-	-
Transfers	<u>(76,360)</u>	<u>(72,902)</u>	<u>(61,440)</u>	<u>(94,121)</u>
Total Business-type Activities	<u>(42,018)</u>	<u>(67,529)</u>	<u>(52,886)</u>	<u>(86,881)</u>
Total Primary Government	<u>\$ 261,968</u>	<u>\$ 267,473</u>	<u>\$ 308,727</u>	<u>\$ 307,666</u>
Change in Net Position				
Governmental Activities	\$ 13,717	\$ 35,047	\$ 79,252	\$ (9,146)
Business-type Activities	<u>12,981</u>	<u>2,384</u>	<u>23,758</u>	<u>40,794</u>
Total Primary Government	<u>\$ 26,698</u>	<u>\$ 37,431</u>	<u>\$ 103,010</u>	<u>\$ 31,648</u>

TABLE II
(Concluded)

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$	126,520	\$ 121,557	\$ 121,046	\$ 126,644	\$ 137,280	\$ 140,567
	-	14,318	14,244	14,234	14,354	22,549
	1,808	1,581	2,148	2,019	1,903	1,919
	117,543	104,580	92,613	86,103	104,462	135,075
	14,741	14,757	15,610	17,171	49,569	88,646
	1,896	261	617	1,503	1,692	966
	15,849	13,846	7,060	8,939	7,424	5,550
	96,599	65,433	83,334	83,615	83,615	109,520
	<u>374,956</u>	<u>336,333</u>	<u>336,672</u>	<u>340,228</u>	<u>400,299</u>	<u>504,792</u>
	-	-	-	-	825	851
	1,894	508	839	850	860	1,453
	407	-	-	-	-	288
	-	-	-	-	-	18,697
	<u>(96,599)</u>	<u>(65,433)</u>	<u>(83,334)</u>	<u>(83,615)</u>	<u>(83,615)</u>	<u>(109,520)</u>
	<u>(94,298)</u>	<u>(64,925)</u>	<u>(82,495)</u>	<u>(82,765)</u>	<u>(81,930)</u>	<u>(88,231)</u>
\$	<u>280,658</u>	<u>271,408</u>	<u>254,177</u>	<u>257,463</u>	<u>318,369</u>	<u>416,561</u>
\$	(30,682)	\$ (40,036)	\$ (36,808)	\$ (47,249)	(68,327)	\$ 35,374
	<u>(36,891)</u>	<u>(22,002)</u>	<u>(32,318)</u>	<u>(8,493)</u>	<u>(75,287)</u>	<u>(34,961)</u>
\$	<u>(67,573)</u>	<u>(62,038)</u>	<u>(69,126)</u>	<u>(55,742)</u>	<u>(143,614)</u>	<u>413</u>

CITY OF MESA, ARIZONA

TABLE III

FUND BALANCE, GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

(in thousands)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
GENERAL FUND				
Reserved (1)(2)	\$ 37,872	\$ 61,257	\$ 77,177	\$ 84,886
Unreserved	19,310	27,994	57,030	50,283
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total General Fund	<u>\$ 57,182</u>	<u>\$ 89,251</u>	<u>\$ 134,207</u>	<u>\$ 135,169</u>
ALL OTHER GOVERNMENTAL FUNDS				
Reserved	\$ 10,335	\$ 8,392	\$ 5,885	\$ 8,643
Unreserved, Reported in:				
Special Revenue Funds	23,499	21,746	24,627	24,922
Capital Project Funds	15,681	18,611	17,568	11,143
Nonspendable	-	-	-	-
Restricted (3)(4)	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total All Other Governmental Funds	<u>\$ 49,515</u>	<u>\$ 48,749</u>	<u>\$ 48,080</u>	<u>\$ 44,708</u>

(1) During fiscal Year 1998-99, a voter-approved 1/2 percent increase to sales tax was enacted.

This additional tax is restricted to fund improvements to quality of life projects and is reported as reserved fund balance in the General Fund.

(2) During FY 2006-07, a quarter percent portion of the sales tax increase described in (1) above to fund capital improvements to quality of life projects expired and was not renewed. Also during FY 2006-07, a voter-approved 1/2 percent increase to sales tax was enacted. This additional tax is restricted to fund street improvements and is reported as restricted fund balance in the General Fund.

(3) Effective with fiscal year 2010-11 the fund balance related to the sales tax for street improvements was moved to the Special Revenue funds.

(4) Effective with fiscal year 2011-12 the fund balance related to the sales tax for Quality of Life projects was moved to the Special Revenue funds.

TABLE III
(Continued)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 51,862	\$ 4,048	\$ -	\$ -	\$ -	\$ -
74,711	92,187	-	-	-	-
-	-	405	754	1,724	2,956
-	-	1,992	2,012	284	188
-	-	4,898	4,992	1,185	1,484
<u>-</u>	<u>-</u>	<u>93,875</u>	<u>78,035</u>	<u>50,426</u>	<u>72,683</u>
<u>\$ 126,573</u>	<u>\$ 96,235</u>	<u>\$ 101,170</u>	<u>\$ 85,793</u>	<u>\$ 53,619</u>	<u>\$ 77,311</u>
\$ 17,013	\$ 53,674	\$ -	\$ -	\$ -	\$ -
24,816	31,871	-	-	-	-
28,442	15,724	-	-	-	-
-	-	2,906	84	55	23
-	-	112,538	211,279	243,831	190,609
-	-	19,166	16,360	23,005	21,379
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1,177)</u>	<u>(675)</u>
<u>\$ 70,271</u>	<u>\$ 101,269</u>	<u>\$ 134,610</u>	<u>\$ 227,722</u>	<u>\$ 265,714</u>	<u>\$ 211,336</u>

CITY OF MESA, ARIZONA

TABLE IV

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

(in thousands)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
REVENUES				
Sales Taxes (1)(2)	\$ 112,259	\$ 128,372	\$ 155,817	\$ 147,763
Property Taxes	-	-	-	-
Occupancy Taxes	1,857	2,190	2,390	2,395
Special Assessments	5	5	417	1,218
Licenses and Permits	18,818	23,145	20,128	23,342
Intergovernmental	153,369	178,553	190,826	193,585
Charges for Services	13,048	17,650	22,039	23,703
Fines and Forfeitures	9,247	9,049	10,277	10,761
Investment Income	1,353	4,376	6,463	5,178
Capital Contributions	-	-	-	-
Miscellaneous	9,562	9,633	6,366	6,422
Total Revenues	<u>319,518</u>	<u>372,973</u>	<u>414,723</u>	<u>414,367</u>
EXPENDITURES				
General Government	38,364	36,731	40,662	48,112
Public Safety	182,224	190,762	210,542	233,507
Cultural-Recreational	54,762	56,188	54,711	57,765
Community Environment	56,953	60,080	65,314	66,616
Miscellaneous Expenditures	-	-	-	-
Debt Service				
Principal	7,692	8,857	8,358	25,871
Interest	15,369	16,181	18,151	19,230
Issuance Cost on Refunding Bonds	-	234	-	-
Service Charges	62	56	57	58
Cost of Issuance	-	-	-	-
Capital Outlay	<u>62,392</u>	<u>79,317</u>	<u>77,475</u>	<u>77,309</u>
Total Expenditures	<u>417,818</u>	<u>448,406</u>	<u>475,270</u>	<u>528,468</u>
Excess of Revenues Under Expenditures	<u>(98,300)</u>	<u>(75,433)</u>	<u>(60,547)</u>	<u>(114,101)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	104,643	106,254	99,901	147,478
Transfers Out	(28,066)	(32,340)	(33,233)	(53,960)
Face Amount of Bonds Issued	21,930	26,410	30,682	15,450
Face Amount of Notes Issued	-	-	-	-
Premium on Issuance of Bonds	640	2,004	573	195
Premium on Issuance of Notes	-	-	-	-
Proceeds from Obligations of				
Capital Leases	6,746	6,402	6,911	2,529
Proceeds From Refunding Issue	26,420	25,482	-	-
Refunding Advance	-	-	-	-
Payment to Refunded Bond Escrow Agent	<u>(26,156)</u>	<u>(27,475)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>106,157</u>	<u>106,737</u>	<u>104,834</u>	<u>111,692</u>
Net Change in Fund Balances	<u>\$ 7,857</u>	<u>\$ 31,304</u>	<u>\$ 44,287</u>	<u>\$ (2,409)</u>
Debt Service as a percentage of Noncapital Expenditures				
	6.51%	6.86%	6.68%	10.01%

(1) During fiscal year 1998-99, a voter approved one-half percent increase to sales tax was enacted.

(2) During fiscal year 2006-07, a voter approved one-half percent increase to sales tax was enacted.

In addition, a quarter percent portion of the sales tax described in (1) above expired and was not renewed by the voters.

TABLE IV
(Continued)

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$	126,520	\$ 121,557	\$ 121,046	\$ 126,644	\$ 137,280	\$ 140,567
	-	13,886	14,274	14,323	14,404	22,500
	1,808	1,581	2,148	2,019	1,903	1,919
	806	923	1,069	996	897	1,062
	13,426	11,824	12,577	13,359	17,693	18,797
	191,085	190,731	174,781	168,433	184,823	185,303
	24,343	20,419	20,304	25,779	27,675	32,106
	10,215	10,135	11,820	11,294	9,885	9,890
	2,018	191	587	1,284	1,501	589
	-	-	-	-	2,264	1,212
	14,755	13,675	7,417	7,573	5,940	4,524
	<u>384,976</u>	<u>384,922</u>	<u>366,023</u>	<u>371,704</u>	<u>404,265</u>	<u>418,469</u>
	36,507	40,113	38,843	41,083	74,596	75,077
	230,864	216,026	215,166	226,429	226,677	231,364
	53,171	40,150	42,191	43,904	37,787	38,788
	72,647	72,081	68,463	64,404	55,197	56,573
	-	-	-	-	-	-
	36,906	34,846	31,690	25,513	31,519	71,015
	18,845	21,186	21,211	22,643	23,433	23,704
	-	-	-	-	-	-
	28	9	10	8	10	-
	-	539	29	870	1,448	727
	<u>77,899</u>	<u>82,530</u>	<u>60,173</u>	<u>66,951</u>	<u>91,537</u>	<u>102,657</u>
	<u>526,867</u>	<u>507,480</u>	<u>477,776</u>	<u>491,805</u>	<u>542,204</u>	<u>599,905</u>
	<u>(141,891)</u>	<u>(122,558)</u>	<u>(111,753)</u>	<u>(120,101)</u>	<u>(137,939)</u>	<u>(181,436)</u>
	155,697	149,437	128,065	121,459	147,818	141,909
	(59,106)	(66,654)	(44,418)	(38,136)	(64,203)	(32,389)
	61,830	30,865	29,320	27,290	62,672	40,800
	-	45,000	-	77,835	-	-
	437	402	360	8,027	3,681	430
	-	869	-	8,250	-	-
	-	-	-	-	-	-
	-	-	-	67,238	17,415	-
	-	-	-	-	(19,889)	-
	-	-	-	(74,127)	-	-
	<u>158,858</u>	<u>159,919</u>	<u>113,327</u>	<u>197,836</u>	<u>147,494</u>	<u>150,750</u>
\$	<u>16,967</u>	<u>37,361</u>	<u>1,574</u>	<u>77,735</u>	<u>9,555</u>	<u>(30,686)</u>
	12.42%	13.19%	12.67%	11.34%	12.20%	19.05%

CITY OF MESA, ARIZONA

TABLE V

SALES TAX COLLECTIONS BY CATEGORY

LAST TEN FISCAL YEARS

(in thousands)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07 (1)</u>	<u>2007-08</u>
Utilities	\$ 6,692	\$ 7,539	\$ 9,116	\$ 9,668
Communications	3,241	2,839	3,939	4,312
Publishing	1,564	1,792	1,963	1,923
Printing & Advertising	367	454	478	375
Contracting	12,074	14,581	21,424	19,301
Retail Sales	64,266	74,421	85,015	77,308
Restaurants & Bars	8,484	9,418	11,726	12,039
Amusements	1,071	1,210	1,457	1,349
Rentals	14,380	15,786	20,534	21,369
Miscellaneous	<u>118</u>	<u>332</u>	<u>165</u>	<u>119</u>
Total	\$ <u>112,257</u>	\$ <u>128,372</u>	\$ <u>155,817</u>	\$ <u>147,763</u>
City Direct Tax Rate	1.50%	1.50%	1.75%	1.75%

Note: Amounts shown include penalties and interest. Occupancy tax not included.

(1) During FY 2006-07, 1/4 percent of the 1/2 percent voter-approved sales tax increase that was enacted in August 1998 to fund capital improvements to quality of life projects expired and was not renewed. Also during FY 2006-07, a voter-approved 1/2 percent increase to sales tax was enacted and is restricted to fund street improvements.

Source: City of Mesa Tax & Licensing Division

TABLE V
(Continued)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 9,654	\$ 9,757	\$ 11,104	\$ 11,878	\$ 12,549	\$ 12,344
3,749	3,809	4,456	4,483	4,651	4,230
1,402	1,102	999	934	866	830
280	175	342	336	434	455
15,263	10,913	8,388	9,962	12,402	13,794
63,230	63,469	60,266	62,191	66,789	69,276
10,956	10,948	11,165	11,864	12,577	12,972
1,363	1,176	1,433	1,434	1,432	1,469
20,514	20,123	22,219	22,968	24,847	24,374
<u>107</u>	<u>84</u>	<u>674</u>	<u>595</u>	<u>732</u>	<u>823</u>
<u>\$ 126,518</u>	<u>\$ 121,555</u>	<u>\$ 121,046</u>	<u>\$ 126,645</u>	<u>\$ 137,279</u>	<u>\$ 140,567</u>
1.75%	1.75%	1.75%	1.75%	1.75%	1.75%

CITY OF MESA, ARIZONA

TABLE VIDIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

	<u>City Direct Rate</u>		<u>Maricopa County</u>		<u>State of Arizona</u>	
2004-05	1.50	%	0.70	%	5.60	%
2005-06	1.50		0.70		5.60	
2006-07	1.75		0.70		5.60	
2007-08	1.75		0.70		5.60	
2008-09	1.75		0.70		5.60	
2009-10	1.75		0.70		6.60	*
2010-11	1.75		0.70		6.60	
2011-12	1.75		0.70		6.60	
2012-13	1.75		0.70		5.60	
2013-14	1.75		0.70		5.60	

Source: City of Mesa Tax & Licensing Office

*Note: The State of Arizona increased its tax to 6.60% effective 6/1/10 for a 3 year period



CITY OF MESA, ARIZONA

TABLE VII

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(in thousands, except per capita)

Governmental Activities							
Year	General Obligation Bonds	Municipal Development Corporation Bonds	Highway User Revenue Bonds	Special Assessment Bonds	Community Facility District	Capital Leases	Notes Payable
2005	\$ 198,770	\$ 9,970	\$ 120,410	\$ 36	\$ -	\$ 24,968	\$ -
2006	207,860	9,970	131,950	5,049	-	23,273	-
2007	223,115	9,970	142,460	8,798	-	22,989	-
2008	221,625	9,970	142,290	8,046	-	17,503	-
2009	267,063	-	140,265	7,294	-	9,730	-
2010	273,869	-	134,545	6,550	-	5,406	45,000
2011	281,514	-	128,515	5,806	-	2,166	45,000
2012	288,669	-	121,395	5,062	-	822	122,835
2013	327,265	-	120,942	4,318	2,712	140	129,435
2014	346,860	-	112,882	3,574	5,897	72	78

(1) Information on personal income and population is presented on Table XII.

TABLE VII
(Continued)

Business-type Activities									
	Utility System Revenue Bonds	General Obligation Bonds	Excise Tax Revenue Obligation Bonds	Municipal Development Corporation Bonds	Notes Payable	Capital Leases	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
\$	549,415	\$ 3,290	\$ -	\$ 13,500	\$ 921	\$ 21,641	\$ 942,922	9.24 %	\$ 2,090
	655,085	3,290	-	9,600	760	4,301	1,051,139	9.97	2,309
	723,185	3,290	-	5,100	589	2,869	1,142,365	10.54	2,483
	767,445	3,290	-	-	432	1,541	1,172,141	10.68	2,529
	817,530	2,957	-	-	333	158	1,245,330	11.03	2,677
	857,435	2,691	-	-	2,964	-	1,328,460	11.49	2,843
	898,800	2,221	-	-	2,731	-	1,366,753	13.06	3,101
	952,500	1,601	-	-	2,493	-	1,495,377	14.10	3,390
	973,670	887	105,079	-	2,370	-	1,666,818	16.09	3,747
	987,454	605	104,499	-	2,244	-	1,564,165	14.63	3,438

CITY OF MESA, ARIZONA

TABLE VIII

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

(in thousands, except per capita)

General Bonded Debt Outstanding					Percentage Of Secondary Assessed Value	Per Capita (2)
Year	Secondary Assessed Value (1)	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total		
2005	\$ 2,648,163	\$ 202,060	\$ -	\$ 202,060	7.63 %	\$ 448
2006	2,921,999	211,150	-	211,150	7.23	464
2007	3,083,070	226,405	-	226,405	7.34	492
2008	4,114,527	224,915	-	224,915	5.47	486
2009	4,793,082	259,895	-	259,895	5.42	559
2010	4,749,617	276,560	-	276,560	5.82	592
2011	4,094,037	283,735	134	283,601	6.93	645
2012	3,164,277	290,270	1	290,269	9.17	658
2013	2,770,422	328,152	138	328,014	11.84	739
2014	2,559,634	347,465	372	347,093	13.56	765

Source: (1) Maricopa County Finance Department Assessor's Office.

(2) Population figures are found on Table XII.

CITY OF MESA, ARIZONA

TABLE IX

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT (1)

JUNE 30, 2014

(in thousands)

Governmental Unit	Debt Outstanding (2)	Proportion Applicable to the City of Mesa	
		Percent (2)	Amount
Debt repaid with property taxes			
Maricopa County Community College District	\$ 712,735	7.94 %	\$ 56,591
Mesa Unified School District No. 4	276,400	86.40	238,810
Gilbert Unified School District No. 41	135	26.16	35
Queen Creek Unified School District No. 95	36,565	30.96	11,321
Higley Unified School District No. 60	61,195	95.00	58,135
Tempe Union High School District No. 213	80,225	20.00	16,045
Tempe Elementary School District No. 3	97,230	47.00	45,698
Eastmark Community Facilities District	3,250	100.00	3,250
Other Debt:			
Maricopa County	148,595	7.94	11,798
Subtotal, overlapping debt			441,683
City direct debt (3)			552,895
Total Direct and Overlapping Debt			\$ 994,578

(1) Does not include Salt River Project Agricultural Improvement and Power District debt, which is considered self-supporting from earnings of the district or special assessment debt of the City of Mesa, which is considered a junior lien.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Mesa. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

Proportion applicable to the City is computed on the ratio of secondary assessed valuation as calculated for fiscal year 2013/14 for the overlapping jurisdiction to the amount of such valuation which lies within the City.

Source:

(2) Wedbush Securities

(3) Includes: General Obligation Bonds, Highway User Revenue Bonds, Special Assessment Bonds, Community Facility District Bonds, Deferred Amts on refundings, Capital Leases, Highway Project Advancement Notes, and Unamortized Bond Premiums

CITY OF MESA, ARIZONA

TABLE X

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(in thousands)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
6% Limitation				
Legal Debt Limitation Equal to 6% of Assessed Valuation	\$ 158,890	\$ 175,320	\$ 184,984	\$ 246,872
Total Net Debt Applicable to 6% Limit	<u>110,085</u>	<u>115,400</u>	<u>22,453</u>	<u>17,688</u>
Margin Available for Future General Obligation Bond Issues for 6% Bonds	\$ <u>48,805</u>	\$ <u>59,920</u>	\$ <u>162,531</u>	\$ <u>229,184</u>
Total Net Debt Applicable to the 6% Limit as a Percentage of the 6% Legal Debt Limitation	69.28%	65.82%	12.14%	7.16%
20% Limitation				
Legal Debt Limitation Equal to 20% of Assessed Valuation	\$ 529,633	\$ 584,400	\$ 616,614	\$ 922,905
Total Net Debt Applicable to 20% Limit	<u>91,975</u>	<u>95,750</u>	<u>203,952</u>	<u>207,227</u>
Margin Available for Future General Obligation Bond Issues for 20% Bonds	\$ <u>437,658</u>	\$ <u>488,650</u>	\$ <u>412,662</u>	\$ <u>715,678</u>
Total Net Debt Applicable to the 20% Limit as a Percentage of the 20% Legal Debt Limitation	17.37%	16.38%	33.08%	22.45%
Total Margin Available	\$ <u>486,463</u>	\$ <u>548,570</u>	\$ <u>575,193</u>	\$ <u>944,862</u>

- (1) Under Arizona law, cities can issue General Obligation Bonds for all purposes other than those listed in Note 2 below, up to an amount not exceeding 6 percent of assessed secondary valuation.
- (2) Under Arizona law, cities can issue General Obligation Bonds for purposes of water, wastewater, artificial light, open space preserves, parks playgrounds and recreational facilities up to an amount not exceeding 20 percent of assessed secondary valuation.

TABLE X
(Continued)

Legal Debt Margin Calculation for Fiscal Year 2013-14

Secondary Assessed Value		\$	2,559,634
		6% Bonds (1)	20% Bonds (2)
Legal Debt Limitation	\$	153,578	\$ 511,927
Debt Applicable to Limit:			
General Obligation Bonds		605	344,040
Total Net Debt Applicable to Limit		605	344,040
Margin Available for Future General Obligation Bond Issues	\$	152,973	\$ 167,887
Total Margin Available			\$ 320,860

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 287,585	\$ 284,977	\$ 245,642	\$ 189,857	\$ 166,225	\$ 153,578
<u>13,569</u>	<u>6,064</u>	<u>5,326</u>	<u>1,370</u>	<u>175</u>	<u>605</u>
\$ <u>274,016</u>	\$ <u>278,913</u>	\$ <u>240,316</u>	\$ <u>188,487</u>	\$ <u>166,050</u>	\$ <u>152,973</u>
4.72%	2.13%	2.17%	0.72%	0.11%	0.39%
\$ 958,616	\$ 949,923	\$ 818,807	\$ 632,855	\$ 554,084	\$ 511,927
<u>246,326</u>	<u>270,496</u>	<u>278,409</u>	<u>288,900</u>	<u>300,735</u>	<u>344,040</u>
\$ <u>712,290</u>	\$ <u>679,427</u>	\$ <u>540,398</u>	\$ <u>343,955</u>	\$ <u>253,349</u>	\$ <u>167,887</u>
25.70%	28.48%	34.00%	45.65%	54.28%	67.20%
\$ <u>986,306</u>	\$ <u>958,340</u>	\$ <u>780,714</u>	\$ <u>532,442</u>	\$ <u>419,399</u>	\$ <u>320,860</u>

CITY OF MESA, ARIZONA

TABLE XI

PLEDGED-REVENUE COVERAGE

LAST TEN FISCAL YEARS

(in thousands)

Utility System Revenue Bonds							
		Operating Revenues (1)	Operating Expenses	Net Revenue Available for Debt Service	Debt Service		Coverage Ratio
					Principal	Interest	
2004-05	\$	228,503	\$ 156,578	\$ 71,925	\$ 310	\$ 23,445	3.03
2005-06		254,216	174,561	79,656	340	25,844	3.04
2006-07		270,070	175,942	94,128	340	29,305	3.18
2007-08		278,366	196,130	82,236	7,960	34,658	1.93
2008-09		274,497	197,992	76,505	9,815	37,225	1.63
2009-10		275,193	194,159	81,034	10,475	40,380	1.59
2010-11		283,921	190,441	93,480	12,585	42,814	1.69
2011-12		299,356	180,296	119,060	21,365	43,465	1.84
2012-13		293,915	241,128	52,787	21,630	46,412	0.78
2013-14		295,710	203,187	92,523	22,550	51,927	1.24

Highway User Revenue Fund Revenue Bonds

		Highway User Fund Revenues	Debt Service		Coverage Ratio
			Principal	Interest	
2004-05	\$	35,370	\$ 135	\$ 5,400	6.39
2005-06		38,285	135	5,830	6.42
2006-07		40,975	135	6,401	6.27
2007-08		38,512	170	6,828	5.50
2008-09		34,260	2,025	6,823	3.87
2009-10		31,791	5,720	6,691	2.56
2010-11		32,053	6,030	6,365	2.59
2011-12		27,825	3,290	5,563	3.14
2012-13		30,046	6,145	5,627	2.55
2013-14		30,923	6,945	5,472	2.49

(1) Includes electric, gas, water, wastewater and solid waste systems.

(2) Excise tax revenues include city use and sales taxes, unrestricted license, fees and permits, fines and forfeitures, state-shared sales tax, state revenue sharing, and state shared vehicle license tax.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

TABLE XI
(Continued)

Special Assessment Bonds					Community Facility District Bonds				
Special Assessment Collections	Debt Service		Coverage Ratio		Community Facility District Collections	Debt Service		Coverage Ratio	
	Principal	Interest				Principal	Interest		
\$ 6	\$ 12	\$ 3	0.40		\$ -	\$ -	\$ -	-	
188	12	185	0.96		-	-	-	-	
851	343	357	1.21		-	-	-	-	
1,710	752	457	1.41		-	-	-	-	
1,202	752	417	1.03		-	-	-	-	
923	744	377	0.82		-	-	-	-	
1,088	744	337	1.01		-	-	-	-	
996	744	297	0.96		-	-	-	-	
897	744	257	0.90		-	-	7	-	
861	744	217	0.90		195	65	131	0.99	
Municipal Development Corporation Bonds					Highway Project Advancement Notes				
Excise Tax Revenues (2)	Debt Service		Coverage Ratio		Excise Tax Revenues (2)	Debt Service		Coverage Ratio	
	Principal	Interest				Principal	Interest		
\$ 162,556	\$ 3,400	\$ 625	40.38		\$ -	\$ -	\$ -	-	
187,580	3,900	479	42.83		-	-	-	-	
216,897	4,500	309	45.10		-	-	-	-	
226,910	5,100	108	43.57		-	-	-	-	
203,198	9,970	17	20.35		-	-	-	-	
-	-	-	-		208,547	-	449	464.30	
-	-	-	-		200,873	-	1,576	127.48	
-	-	-	-		199,949	-	4,312	46.37	
-	-	-	-		213,309	-	5,404	39.47	
-	-	-	-		221,355	45	4,790	45.78	

CITY OF MESA, ARIZONA

TABLE XII

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Year	Population (1)	Personal Income (2) (in thousands)	Per Capita Personal Income (3)	Median Age (3)	Public School Enrollment (4)	Unemployment Rate (5)
2005	451,223	\$ 10,203,506	\$ 22,613	32.5	74,070	3.6 %
2006	455,151	10,539,477	23,156	32.6	74,626	3.8
2007	460,155	10,840,792	23,559	32.9	74,128	2.9
2008	463,397	10,977,412	23,689	33.1	73,054	4.3
2009	465,272	11,288,895	24,263	33.3	70,297	8.0
2010	467,355	11,563,297	24,742	33.6	67,749	8.7
2011	440,677	10,465,197	23,748	32.6	66,144	9.0
2012	441,160	10,603,281	24,035	34.3	65,662	7.5
2013	444,856	10,361,141	23,291	34.4	64,892	7.2
2014	454,981	10,687,959	23,491	35.3	64,932	6.5

Sources:

- (1) 2005-2013 City of Mesa Development Services (estimate), 2014 ESRI Community Analyst
- (2) 2005-2010 Claritas (estimate), 2011-2013 SitesUSA (estimate), 2014 ESRI Community Analyst
- (3) 2005-2010 Claritas, 2011-2013 SitesUSA, 2014 ESRI Community Analyst
- (4) Mesa Public Schools
- (5) AZ Dept of Economic Security. Data is Phoenix - Mesa Metropolitan Area. Beginning in 2011 unemployment rate is not seasonally adjusted.

CITY OF MESA, ARIZONA

TABLE XIII

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Employer	2014			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Banner Health System	9,573	1	7.71 %	6,100	2	3.01 %
Mesa Public Schools	8,770	2	7.06	10,000	1	4.94
Boeing	4,700	3	3.78	4,300	3	2.13
City of Mesa	3,519	4	2.83	3,700	4	1.83
Maricopa County Government	2,644	5	2.13	-		0.00
Wal-Mart	2,533	6	2.04	1,775	6	0.88
Maricopa Community College	1,951	7	1.57	-		0.00
Kroger (Fry's)	1,210	8	0.97	-		0.00
Gilbert Unified School District	1,087	9	0.88	-		0.00
Aviall Inc	842	10	0.68	-		0.00
TRW/Vehicle Safety Systems, Inc.	-		0.00	1,450	7	0.72
AT&T	-		0.00	2,800	5	1.38
Empire Southwest Machinery	-		0.00	1,000	8	0.49
Bashas'	-		0.00	860	9	0.43
Special Devices	-		0.00	750	10	0.37
Total	36,829		29.66 %	32,735		16.18 %

Source: City of Mesa Office of Economic Development

CITY OF MESA, ARIZONA

TABLE XIVFULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2004-05	2005-06	2006-07	2007-08
General Government	1,005	934	979	966
Police	1,325	1,311	1,332	1,306
Fire	446	454	468	472
Cultural-Recreational	511	462	445	417
Community Environment	170	161	183	181
Energy Resources	129	115	125	132
Water Resources	148	156	177	166
Solid Waste	135	138	132	136
Airport	9	11	10	9
Total	3,878	3,742	3,851	3,785

Source: City of Mesa Budget and Research Division

TABLE XIV
(Continued)

2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
838	835	824	870	864	880
1,282	1,240	1,163	1,158	1,163	1,173
470	455	457	473	479	482
335	329	334	332	313	317
189	184	189	184	183	178
140	122	116	115	117	117
213	232	230	233	229	238
126	124	120	117	127	125
10	10	9	9	10	10
3,603	3,531	3,442	3,491	3,485	3,520

CITY OF MESA, ARIZONA

TABLE XVOPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2004-05	2005-06	2006-07	2007-08
Police				
Major Crimes	25,853	24,904	22,437	21,388
Traffic Accidents	10,121	9,205	12,184	7,578
Fire				
Fires	1,386	1,605	1,428	1,200
Rescue or Emergency	41,689	43,073	38,003	34,207
False Alarms	2,021	2,595	2,875	2,456
Hazardous Conditions	591	676	608	567
Other Calls	7,738	7,820	11,792	12,976
Libraries				
Number of Registered Borrowers	193,722	233,836	266,839	275,449
Total Attendance	1,208,594	1,195,075	1,161,887	1,165,451
Access to Electronic Resources	1,835,867	2,307,051	3,029,001	2,910,088
Electric Connections	15,652	15,806	15,723	15,215
Gas Connections	45,435	48,622	50,478	51,454
Water				
Connections	131,141	133,105	133,249	133,086
Average Daily Consumption (mgd)*	93.6	94.5	89.6	85.8
Peak Daily Consumption (mg)**	137.95	131.28	128.83	125.72
Wastewater				
Connections	114,500	116,282	116,190	116,465
Average Daily Sewage Treatment (mgd)*	38.9	41.8	38.1	38.0
Solid Waste				
Customers Served	114,112	113,146	115,305	112,632
Refuse Collected (tons)	248,255	261,369	266,817	243,208
Recyclables Collected (tons)	36,264	32,869	38,660	39,296
Green Waste Collected (tons)	16,983	17,500	18,215	17,601
Falcon Field				
Average Number of Aircraft Based	922	924	901	934
Aircraft Operations (annual)	255,069	271,295	261,623	337,178

* mgd - millions of gallons per day

** mg - millions of gallons

TABLE XV
(Continued)

2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
18,482	17,345	16,623	16,740	16,149	14,561
6,256	5,890	5,952	6,047	6,186	6,107
1,165	1,048	981	1,012	929	1,075
32,478	34,079	38,788	42,925	43,416	44,885
2,125	1,478	1,478	1,292	1,255	1,176
663	701	478	446	454	477
11,923	12,819	11,840	11,192	11,803	9,403
306,427	352,607	220,812	142,943	166,492	196,020
1,348,555	1,367,667	1,095,196	1,143,718	1,178,137	1,166,560
3,661,261	2,542,927	1,691,966	1,566,775	1,515,299	1,541,323
14,546	14,738	15,064	15,841	13,815	16,460
51,911	52,832	53,434	55,828	55,544	58,011
132,771	133,701	134,072	135,138	136,640	137,910
79.7	72.7	76.2	81.6	78.2	76.7
108.68	111.14	114.30	122.30	115.68	117.13
116,721	117,831	118,413	119,615	120,953	122,623
36.0	33.6	33.7	33.4	33.8	33.1
112,832	113,079	115,811	118,949	119,142	121,674
234,709	217,295	223,217	209,116	215,463	217,745
37,841	36,490	35,486	34,443	34,616	34,629
18,936	18,588	19,149	17,882	19,878	18,854
873	841	789	749	700	729
283,336	248,381	221,910	222,650	190,605	276,731

CITY OF MESA, ARIZONA

TABLE XVI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2004-05	2005-06	2006-07	2007-08
Police Stations				
Stations	4	4	4	4
Vehicular Patrol Units	321	285	351	368
Fire Stations	17	17	17	17
Libraries	3	3	3	3
Parks and Recreation				
Developed Parks (acres)	1,149	1,184	1,184	1,180
Undeveloped Acres	1,230	1,251	1,251	1,251
Swimming Pools	12	12	12	12
Recreation Facilities	6	6	6	6
Community Environment				
Streets (miles)				
Paved	1,160	1,162	1,169	1,178
Unpaved	12	12	12	12
Storm Sewers (miles)	296	298	303	308
Gas Mains (miles)	1,037	1,121	1,147	1,202
Water				
Mains (miles)	2,004	2,022	2,008	2,068
Storage Capacity (millions of gallons)	97	117	117	117
Wastewater				
Mains (miles)	1,512	1,522	1,544	1,577
Treatment Capacity (millions of gallons per day)	56	56	60	60
Solid Waste				
Collection Trucks	69	78	68	70
Golf Courses	2	2	2	2

TABLE XVI

(Continued)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
4	4	4	5	6	8
330	289	290	267	267	291
17	18	18	19	20	20
3	3	4	4	4	4
1,180	1,154	1,154	1,553	1,177	1,232
1,251	1,078	1,074	705	1,104	1,157
12	12	13	9	9	9
6	6	6	6	6	4
1,182	1,184	1,190	1,303	1,307	1,418
12	12	12	1	1	1
316	321	329	438	432	440
1,223	1,243	1,247	1,240	1,256	1,256
2,104	2,127	2,136	2,270	2,284	2,315
125	125	125	125	125	125
1,598	1,606	1,613	1,652	1,677	1,677
60	60	60	60	60	60
69	69	69	70	72	72
2	2	2	1	1	1





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SUMMARY OF THE MASTER RESOLUTION

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SUMMARY OF THE MASTER RESOLUTION, AS AMENDED

The following is a summary of certain provisions of the Master Resolution, which was adopted by the Mayor and Council of the City of Mesa on July 29, 1991, as amended. A summary of the Thirtieth Supplemental Resolution follows this Summary of the Master Resolution. The Thirtieth Supplemental Resolution is substantially the same as the other twenty-nine Supplemental Resolutions. The Master Resolution authorized the issuance of the Series 1991 Bonds and set the conditions for issuance of later Parity Bonds such as the Series 2015 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 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.

(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 times 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-1 by S&P or at least P-1 by Moody's; provided, however, that if at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in a comparable rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such entities, all to the extent not fully insured by FDIC having a combined capital and surplus of not less than \$50,000,000 at the time of any such deposit.

(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 1995 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 out as reimbursement for acquisition, construction or installations of System facilities.

“Series 1991 Bonds” - the City of Mesa, Arizona, Utility Systems Revenue and Refunding Bonds, Series 1991.

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

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

Authorization of Bonds; Special Obligations.

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

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

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

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

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

Creation of Funds: Application of Revenues.

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

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

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

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

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

Drawdowns upon Reserve Fund Guaranties required to pay principal and interest will be replaced therein from the first money in the Revenue Fund thereafter received which is not required for current transfers into the Bond Fund pursuant to subparagraphs (1) or (2) of this subsection. The Post-2002 Reserve Fund shall contain two accounts, the Contributed Reserve Account and the Capitalized Reserve Account. The two accounts are created to segregate Post-2002 Reserve Fund Moneys and Investments to provide a means of tracking Post-2002 Reserve Fund deposits and investment income thereon for purposes of the Internal Revenue Code of 1986, as amended, or any comparable

provision requiring such tracking. All Post-2002 Reserve Fund deposits made from Net Revenues or other available moneys of the City shall be deposited to the Contributed Reserve Account. All Bond proceeds deposited to the Post-2002 Reserve Fund shall be deposited into the Capitalized Reserve Account. Any proceedings hereinafter taken with respect to the issuance of Parity Bonds may satisfy the amount to be deposited in either account, so long as the minimum amount required by the Master Resolution to be deposited to the Post-2002 Reserve Fund shall be so deposited. All Post-2002 Reserve Fund Guaranties shall be deemed to be deposited to, and a part of the Post-2002 Reserve Fund Capitalized Reserve Account.

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

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

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

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

Covenants Regarding the Operation of the System. The City covenants and agrees with each and every Owner that it will: (A) maintain the System in good condition and operate the same in an efficient manner and at reasonable cost, and shall not permit free System services to be furnished to any consumer or user; (B) maintain insurance on all System properties (which may be in the form of or include an adequately-funded self-insurance program) with coverage normally carried by municipalities or private companies engaged in a similar business. System self-insurance may be maintained either separately or in connection with any Citywide self-insurance program if any such program is in writing. The proceeds of any such insurance, except public liability insurance, received by the City shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund; (C) keep proper books and accounts for the System, which will be audited at the end of each Fiscal Year in accordance with generally accepted governmental accounting practices; The City further will furnish copies of such audits to any Owner at their request, within one hundred eighty (180) days after the close of each Fiscal Year; (D) faithfully and punctually perform all legal duties with reference to the System; (E) not sell, lease, mortgage or in any manner dispose of the System or any part thereof, until all of the Bonds and the City's obligations under any Agreement shall have been paid in full 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 extent 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 parity 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; (2) the payments required to be made into the various funds provided in Section 10 of the Master Resolution must be current; (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 first 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 issuer 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 THIRTIETH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Thirtieth Supplemental Resolution, which supplements the Master Resolution and authorizes the issuance of the Utility Systems Revenue Bonds, Series 2015, adopted by the Mayor and Council on May 14, 2015. The summary does not purport to be a full statement of the terms of the Thirtieth Supplemental Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Authority. The Series 2015 Bonds (as defined below) 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 Thirtieth 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 2015 Bonds. The Master Resolution (as amended and supplemented with the exception of the Twenty-Sixth Supplemental Resolution that was revoked by the Twenty-Ninth Supplemental Resolution) and the Thirtieth Supplemental Resolution shall stay in effect until all Series 2015 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 (as amended and supplemented) are incorporated by reference into the Thirtieth Supplemental Resolution. The following terms shall have the following meanings in the Master Resolution (as amended and supplemented) and in the Thirtieth Supplemental Resolution unless the text expressly or by necessary implication requires otherwise:

“Bond Registrar for the Series 2015 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 2015 Bonds to July 1, 2015, 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 2015 Bonds” - the City’s \$30,220,000 Utility Systems Revenue Bonds, Series 2015.

“Thirtieth Supplemental Resolution” – The Thirtieth Supplemental Resolution supplementing the Master Resolution and authorizing the issuance of the Series 2015 Bonds.

Authorization of Series 2015 Bonds; Special Obligations.

A. There is authorized the issuance and sale of \$30,220,000 City of Mesa, Arizona, Utility Systems Revenue Bonds, Series 2015. The Series 2015 Bonds shall never be construed to be tax secured bonds of the City as defined in A.R.S. §§ 9-531 or 9-521, or general obligation bonds of the City within the meaning of A.R.S. Title 35, Chapter 3, Article 3, or constitute a debt of the City within the Constitution and laws of the State.

B. The Series 2015 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 (as amended and supplemented) and the Thirtieth Supplemental Resolution. Subject to the Master Resolution (as amended and supplemented), the Net Revenues are pledged and assigned as security for the payment of the principal and redemption price of, and interest on, the Series 2015 Bonds in accordance with their terms, the Master Resolution (as amended and supplemented) and the provisions of the Thirtieth Supplemental Resolution. All Net Revenues shall be immediately subject to the pledge of the Master Resolution (as amended and supplemented) and the Thirtieth 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 (as amended and supplemented) and the Thirtieth Supplemental Resolution.

C. In addition to the payments required to be made into the Bond Fund required by the Master Resolution (as amended and supplemented), the following additional payments shall be made to the Bond Fund with respect to the Series 2015 Bonds on or before the tenth (10th) day of each month:

(1) Commencing on the 10th day of the month following the closing date of the Series 2015 Bonds, the amount due on the next succeeding interest payment date divided by the number of monthly payments that can be made prior to such next succeeding interest payment date, and commencing on the 10th day of the month following the first interest payment date, one-sixth (1/6) of the interest coming due on the next semiannual interest payment date on all of the Series 2015 Bonds then Outstanding; and

(2) Commencing on the 10th day of the month following the closing date of the Series 2015 Bonds, the amount due on the next succeeding principal payment date divided by the number of monthly payments that can be made prior to such next succeeding principal payment date and commencing on the 10th day of the month following the first principal payment date, one-twelfth (1/12) of the principal becoming due on the next succeeding principal payment date on all Series 2015 Bonds then Outstanding.

Resolution a Contract. The provisions of the Master Resolution (as amended and supplemented) and the Thirtieth Supplemental Resolution are deemed incorporated into the Series 2015 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 (as amended and supplemented) or the Thirtieth Supplemental Resolution shall be made in any manner, except as provided in the Master Resolution (as amended and supplemented) or until such time as all of the Series 2015 Bonds and interest due thereon have been paid in full.

Cancellation. To the extent applicable by provision of law, and to the extent the Thirtieth Supplemental Resolution constitutes a contract, it is subject to cancellation pursuant to A.R.S. § 38-511, as amended.

FORM OF APPROVING LEGAL OPINION

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_____, 2015

MAYOR AND COUNCIL
CITY OF MESA, ARIZONA

Re: City of Mesa, Arizona, Utility Systems
Revenue Bonds, Series 2015

We have examined the transcript of proceedings relating to the issuance by the City of Mesa, Arizona (the “City”) of its \$30,220,000 aggregate principal amount of Utility Systems Revenue Bonds, Series 2014, dated as of the date of initial delivery (the “Bonds”), issued pursuant to Title 9, Chapter 5, Article 3, Arizona Revised Statutes, and all amendments thereto (the “Act”).

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

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

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

2. Pursuant to the Act, the Resolution creates a valid lien for the security of the Bonds on the revenues derived by the City from its utility System (as defined in the Resolution) after provision for expenses of operation and maintenance of the System as provided in the Resolution, on a parity, however, with 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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\$ _____
CITY OF MESA, ARIZONA
UTILITY SYSTEMS REVENUE BONDS,
SERIES 2015

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 2015 (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.

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

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

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

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

"*Official Statement*" shall mean the final official statement dated _____, 2015, relating to the Bonds.

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

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than February 1 of each year (the "*Filing Date*"), commencing February 1, 2016, provide electronically to MSRB, in a format prescribed by the MSRB, an Annual Report for the fiscal year ending on the preceding June 30 which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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. Currently, filings are required to be made with EMMA. Notice of any such change in the City's fiscal year will be filed with EMMA. Not later than fifteen (15) business days prior to such Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

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

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

(d) The Dissemination Agent shall:

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

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

Section 4. Content of Annual Reports.

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

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

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

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

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

(i) Combined Schedules of Net Revenues and Debt Service Coverage;

(ii) Appendix B – Financial Data – Statements of Bonds Outstanding.

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

qualitative discussion of the differences, and the impact on the presentation and, to the extent feasible, a quantitative comparison.

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

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

Section 5. Reporting of Listed Events.

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

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

Note to paragraph 5(a)(12) above: For the purposes of the event identified in paragraph 5(a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the

Bonds. Such termination shall not terminate the obligation of the City to give notice of such defeasance or prior redemption.

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

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

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

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

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

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

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

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

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

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

Section 13. Undertaking Payable from Net Revenues. The City's undertaking to provide information under this Disclosure Certificate is payable solely from Net Revenues of the System (as such terms are defined in the Official Statement) to cover the costs of preparing and sending the Annual Report and notices of listed events to EMMA. Until payment of the Bonds, no receipts segregated or collected for the purpose of paying the principal of and interest and redemption charges on bonds and other lawful long-term obligations issued or incurred for a specific capital purpose shall be subject to the provisions of Arizona Revised Statutes, Title 42, Chapter 17, the State of Arizona budget law.

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: _____, 2015.

CITY OF MESA, ARIZONA

By _____
Its Chief Financial Officer

EXHIBIT A
NOTICE OF FAILURE TO FILE

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: \$_____ Utility Systems Revenue Bonds, Series 2015
Dated Date of Bonds: _____, 2015 CUSIP: 590545

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Financial Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated _____, 2015. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF MESA, ARIZONA

By _____
Its _____

EXHIBIT B

NOTICE OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: City of Mesa, Arizona
Name of Bond Issue: \$_____ Utility Systems Revenue Bonds, Series 2015
Dated Date of Bonds: _____, 2015 CUSIP: 590545

NOTICE IS HEREBY GIVEN that the City failed to provide its audited financial statements with its Annual Report or, if not available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated _____, 2015 with respect to the above-named Bonds. The City anticipates that the audited financial statements for the fiscal year ended June 30, ____ will be filed by _____.

Dated: _____

CITY OF MESA, ARIZONA

By _____
Its _____

BOOK-ENTRY-ONLY SYSTEM

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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

WEDBUSH