

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

We have audited the 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, 2017, and have issued our report thereon dated January 2, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the capital assets' remaining useful lives is based on an analysis of the current rate of use of certain assets. We evaluated the key factors and assumptions used to develop the capital assets' remaining useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for uncollectible accounts related to the City's court receivables is based on an analysis of the history of court receivable collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts related to the City's court receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

Accounting estimates (Continued)

- Management's estimate of the allowance for doubtful accounts related to the City's utility receivables is based on historical utility revenues, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the Other Postemployment Benefit Liability (OPEB) is based on actuarial methods and assumptions of the substantive benefit plan. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the current portion of the compensated absence liability is based on actual payouts made during the first two months of the fiscal year under audit. We evaluated the key factors and assumptions used to develop the current portion of the compensated absence liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the estimated claims payable is based on an actuarial analysis of the City's general liability and workers compensation loss and allocated loss adjustment expense reserves as of June 30, 2017. We evaluated the key factors and assumptions used to develop the estimated claims payable in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the estimated claims payable for employee benefits self-insurance is based on an analysis of the six month claims paid multiplied by two to determine the annual projected claims. The annual projected claims are multiplied by the cumulative days lag. The cumulative lag represents the time from when a claim is received until it is paid. We evaluated the key factors and assumptions used to develop the estimated claims payable in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the unfunded pension liability related to the Arizona State Retirement System and Elected Officials pension plans and Public Safety Personnel Retirement System Plan benefits are based on actuarial reports prepared by other professionals. We reviewed the key assumptions used to estimate the liability in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the change in investment in joint venture is based on contribution data and the knowledge of current year capital activity. We evaluated the key factors and assumptions used to develop the change in joint venture in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***Corrected misstatements***

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in aggregate, to the financial statements taken as a whole.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated January 2, 2018.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Audits of group financial statements***

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

***Limitations on the group audit***

There were no restrictions on our access to information of components or other limitations on the group audit.

### **Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated January 2, 2018.

With respect to the nonmajor combining statements and schedules and the federal financial data schedule (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated January 2, 2018.

The introductory and statistical sections accompanying the financial statements, which are of a nonaccounting nature and which are the responsibility of management, were prepared for purposes of additional analysis and are not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \*

The Honorable Mayor and Members of City Council  
City of Mesa, Arizona  
Page 5 of 6

This communication is intended solely for the information and use of the city council and management of the City of Mesa, Arizona and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
January 2, 2018

**Passed, Unrecorded Adjustments**

Opinion Unit: **General Fund**

To properly state fund balance, accounts receivable and revenue at June 30, 2017.

	<u>Debit</u>	<u>Credit</u>
Light Rail Fare Recovery	\$ 312,003	
Unassigned Fund Balance		\$ 312,003
A/R Other Governments	247,737	
Light Rail Fare Recovery		247,737
<b>Total</b>	<b><u>\$ 559,740</u></b>	<b><u>\$ 559,740</u></b>

To properly state unavailable revenue and revenue at June 30, 2017.

Unavailable Revenue	\$ 399,490	
Other Revenues Non Taxable		\$ 399,490
<b>Total</b>	<b><u>\$ 399,490</u></b>	<b><u>\$ 399,490</u></b>

Opinion Unit: **Governmental Activities**

To properly record the activity of the EORP.

Salary and Benefits	\$ 1,035,310	
Deferred Outflows of Resources	1,083,642	
Pension Liability		3,466,372
Deferred Inflow of Resources		65,186
Net Position	1,412,606	
<b>Total</b>	<b><u>\$ 3,531,558</u></b>	<b><u>\$ 3,531,558</u></b>

To properly state pension expense and beginning net position.

Salary and Benefits		\$ 3,600,000
Net Position	\$ 3,600,000	
<b>Total</b>	<b><u>\$ 3,600,000</u></b>	<b><u>\$ 3,600,000</u></b>