OFFICIAL STATEMENT DATED FEBRUARY 14, 2012

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 Authority and the City, as mentioned under "TAX EXEMPTION" herein, interest income on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, except interest on any Series 2012 Bonds for any period which it is held by a "substantial user" or a "related person", as these terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended. However, interest on the Series 2012 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest income on the Series 2012 Bonds is exempt from Arizona income taxes. See "TAX EXEMPTION" and "BOND PREMIUM."

$19,220,000
PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SPECIAL FACILITY REVENUE BONDS (MESA PROJECT), SERIES 2012

Dated: Date of Initial Delivery **Due: July 1, as shown on inside front cover**

The Special Facility Revenue Bonds (Mesa Project), Series 2012 (the "Series 2012 Bonds") will be issued by the Phoenix-Mesa Gateway Airport Authority (the "Authority"), to provide funds to (i) design, acquire and construct the Special Facility (as defined herein) (ii) fund a debt service reserve account (iii) pay capitalized interest on the Series 2012 Bonds through July 1, 2013 and (iv) pay costs of issuance of the Series 2012 Bonds.

The Series 2012 Bonds will be dated the date of initial delivery, and interest on the Series 2012 Bonds accruing at the rates set forth on the inside front cover will be payable commencing July 1, 2012 and semiannually thereafter on January 1 and July 1 of each year (each an "Interest Payment Date"), until maturity or prior redemption of the Series 2012 Bonds. Principal of the Series 2012 Bonds will be payable in accordance with the maturity schedule set forth on the inside front cover. Purchases of beneficial interests in the Series 2012 Bonds will be made in book-entry form in the book-entry-only system of The Depository Trust Company ("DTC") only through DTC participants in the amount of $5,000 of principal due on a specific maturity date or any integral multiple thereof. The Series 2012 Bonds will be registered in the name of DTC through its nominee as described herein. While the Series 2012 Bonds are in the book-entry-only system, no physical delivery of the Series 2012 Bonds will be made to the purchasers of the beneficial interests therein (the "Beneficial Owners"), and all payments of principal of and interest on the Series 2012 Bonds will be made to DTC as described herein. See APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM."

Utilization of the book-entry-only system will affect the method and timing of payment of principal of and interest on the Series 2012 Bonds and the method of transfer of the Series 2012 Bonds. So long as the book-entry-only system is in effect, a single fully-registered Series 2012 Bond for each maturity will be registered in the name of Cede & Co., as nominee of DTC, by U.S. Bank National Association, as Trustee (the "Trustee"). DTC will be responsible for distributing the principal and interest payments to its direct and indirect participants who will, in turn, be responsible for distribution to the Beneficial Owners. So long as the book-entry-only system is in effect and Cede & Co. is the registered owner of the Series 2012 Bonds, all references herein to owners of the Series 2012 Bonds will refer to Cede & Co. and not the Beneficial Owners. See APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM."

The Series 2012 Bonds will be subject to optional and mandatory redemption prior to their stated maturities as described under "THE SERIES 2012 BONDS – Redemption Provisions" herein.

The Series 2012 Bonds will be special obligations of the Authority issued under and equally and ratably secured, both as to principal and interest, by a Trust Agreement, to be dated as of February 1, 2012, (the "2012 Trust Agreement") between the Authority and the Trustee. Pursuant to a Property and Special Facility Lease Agreement, to be dated as of February 1, 2012 (the "2012 Lease"), between the Authority and the City of Mesa, Arizona (the "City"), the Authority will lease certain real property (the "Project Site") and improvements comprising the Special Facility to the City. Under the terms of the 2012 Lease, the City will pay Rental Payments (as defined herein) which is comprised of Base Rent and Premises Rent (both as defined herein). The City's Base Rent payment due under the 2012 Lease will be in sums sufficient to pay, among other things, the principal of and interest on the Series 2012 Bonds as the same come due, and all charges and expenses of the Trustee. The City will pledge its Excise Taxes (as defined herein) as security for the payment of the Base Rent due under the 2012 Lease. Such pledge of Excise Taxes will be a junior lien upon the Excise Taxes, subordinate to the lien thereon of the Outstanding Senior Obligations (as defined herein). The Premises Rent will be paid directly to the Authority. The Series 2012 Bonds will be payable solely from the Rental Payments received by the Trustee and the Authority under the 2012 Lease. Subject to certain conditions, additional Senior Obligations secured by a lien on the Excise Taxes senior to the lien securing the Series 2012 Bonds may hereafter be issued or incurred and additional obligations secured by a lien on Excise Taxes on parity with the lien securing the Series 2012 Bonds may hereafter be issued or incurred. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS" herein. *The Series 2012 Bonds will be payable solely from the sources herein described. The Series 2012 Bonds will not be general obligations of the Authority, the City, the State of Arizona or any political subdivision thereof and do not constitute a debt or pledge of the full faith and credit of the Authority or the taxing power of the City (other than the excise taxing power of the City pursuant to the 2012 Lease) or of the State of Arizona or of any political subdivision, municipality or other local agency thereof. The Authority has no taxing power.*

See Inside Front Cover for Maturity Schedule and Additional Information

This cover page contains only a brief description of the Series 2012 Bonds and the security therefor. It is not a summary of material information with respect to the Series 2012 Bonds. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are offered when, as and if issued by the Authority and received by the Underwriters indicated below and subject to the approving opinion of Gust Rosenfeld P.L.C., Bond Counsel, as to validity and tax exemption. Certain legal matters pertaining to the Authority will be passed upon by Gust Rosenfeld, P.L.C., counsel to the Authority. Certain legal matters pertaining to the City will be passed upon by Gust Rosenfeld, P.L.C., Bond Counsel, and the City Attorney of the City. Certain legal matters will be passed upon solely for the benefit of the Underwriters by Squire Sanders (US) LLP. The Series 2012 Bonds are expected to be available for delivery through the facilities of DTC on or about February 29, 2012.

Piper Jaffray **Stone & Youngberg, a Division of Stifel Nicolaus**

$19,220,000
PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SPECIAL FACILITY REVENUE BONDS (MESA PROJECT)
SERIES 2012

MATURITY SCHEDULE

$4,305,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2014	$420,000	3.00%	1.49%
2015	430,000	3.00	1.98
2016	445,000	3.00	2.19
2017	460,000	3.00	2.39
2018	470,000	4.00	2.76
2019	490,000	4.00	3.01
2020	510,000	4.00	3.29
2021	530,000	4.00	3.52
2022	550,000	4.00	3.68

$1,180,000 5.00% Term Bond Due July 1, 2024, Price 109.727% *
$2,000,000 5.00% Term Bond Due July 1, 2027, Price 107.517% *
$4,055,000 5.00% Term Bond Due July 1, 2032, Price 103.839% *
$7,680,000 5.00% Term Bond Due July 1, 2038, Price 100.635% *

***** Price calculated to July 1, 2022, the first optional redemption date.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY

BOARD OF DIRECTORS

John Lewis, Chair (Mayor, Town of Gilbert)
Stephen Lewis, Vice Chair (Lt. Governor, Gila River Indian Community)
Scott Smith, Secretary (Mayor, City of Mesa)
Gail Barney, Treasurer (Mayor, Town of Queen Creek)
Thelda Williams, Director (Councilmember, City of Phoenix)

CITY OF MESA

CITY COUNCIL

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

CITY ADMINISTRATIVE OFFICERS

Christopher Brady, City Manager
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Chuck Odom, Senior Executive Manager
Kathryn Sorensen, Water Resources Department Director
Frank McRae, Energy Resources Department Director
Doug Yeskey, Controller
Linda Crocker, City Clerk

BOND COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Wedbush Securities Inc.
Phoenix, Arizona

TRUSTEE

U.S. Bank National Association
Phoenix, Arizona

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REGARDING THIS OFFICIAL STATEMENT

This Official Statement, which includes the cover page and appendices hereto, does not constitute an offering of any security other than the Series 2012 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 Series 2012 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 Authority, the City, the Maricopa County Assessor, the Maricopa County Treasurer, 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 Authority, the City, Wedbush Securities Inc. (the "Financial Advisor"), Piper Jaffray & Co. or Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus (collectively, the "Underwriters"). The presentation of information, including tables of receipts from taxes and other revenue sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Authority or 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 Authority or 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 Authority, the City, or any of the other parties or matters described herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in the Official Statement: The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Neither the Series 2012 Bonds nor the 2012 Lease will be registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, nor has the 2012 Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon the exemptions contained in such Acts; neither the Series 2012 Bonds nor the 2012 Lease will be registered 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.

As the "obligated person" pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will covenant to provide continuing disclosure as described in this Official Statement under the heading "CONTINUING DISCLOSURE" and in APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2012 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

$19,220,000
PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SPECIAL FACILITY REVENUE BONDS (MESA PROJECT),
SERIES 2012

INTRODUCTORY STATEMENT

This Official Statement, which includes the front and inside cover pages and appendices hereto, provides certain information concerning the Phoenix-Mesa Gateway Airport Authority Special Facility Revenue Bonds (Mesa Project), Series 2012 (the "Series 2012 Bonds") being issued by the Phoenix-Mesa Gateway Airport Authority (the "Authority") pursuant to a Trust Agreement, to be dated as of February 1, 2012 (the "2012 Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee, (the "Trustee").

The Authority will undertake issuance of the Series 2012 Bonds to provide funds to (i) design, acquire and construct an aircraft maintenance, repair and overhaul facility and related improvements (the "Special Facility"), on certain real property of the Authority (the "Project Site") located in the City of Mesa, Arizona (the "City"), (ii) fund a debt service reserve account (iii) pay capitalized interest on the Series 2012 Bonds through July 1, 2013 and (iv) pay costs of issuance of the Series 2012 Bonds.

The Series 2012 Bonds will be payable solely from rental payments (the "Rental Payments") which are comprised of Base Rent and Premises Rent to be made by the City pursuant to a Property and Special Facility Lease Agreement, to be dated as of February 1, 2012 (the "2012 Lease"), between the Authority, as lessor, and the City, as lessee, pursuant to which the Authority will lease the Special Facility and the Project Site (together, the "Project") to the City. That portion of the Rental Payments designated as Base Rent (as defined below) owed by the City under the 2012 Lease will be payable from and secured by a pledge of, and lien on, all of the City's unrestricted excise, transaction, franchise, privilege and business taxes, state shared sales and income taxes, state shared vehicle license taxes, fees for licenses and permits, fines, forfeitures and state revenue sharing that are levied by and paid to the City or contributed, allocated or paid to the City and not earmarked by the contributor or the City for a contrary or inconsistent purpose (collectively, "Excise Taxes"). Excise Taxes shall not include excise taxes levied and paid to the City under (a) the .25% transaction privilege (sales) and use tax approved by the voters of the City on May 19, 1998, the use of which is restricted to health, safety and other quality of life uses, (b) the .30% transaction privilege (sales) and use tax approved by the voters of the City on May 16, 2006, the use of which is restricted to streets projects in the City, (c) any transient lodging tax (formerly known as the transient occupancy tax), or (d) any other similar tax restricted as to its use. Such pledge of, and lien on, the Excise Taxes will be subordinate to the pledge of, and lien on, the Excise Taxes for payment of certain obligations of the City outstanding in the principal amount of $122,835,000 and other obligations hereafter issued on parity therewith (collectively the "Senior Obligations"). "Base Rent" means the portion of the Rental Payments due under the 2012 Lease that is sufficient to pay the principal of and interest on the Series 2012 Bonds as the same come due together with (i) any and all amounts necessary to cause redemption of the Series 2012 Bonds, (ii) all fees and expenses of the Trustee and the registrar and paying agents under the 2012 Trust Agreement, to the extent, if any, that such fees, expenses and payments are not met by the regular annual rental payments for use of the Project, (iii) reserve fund payments due under the 2012 Trust Agreement and (iv) any interest on overdue amounts. That portion of the Rental Payments designated as Base Rent will be paid by the City directly to the Trustee. That portion of the Rental Payments designated as the Premises Rent will be paid by the City to the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS – Excise Tax Revenues" and APPENDIX H – "EXCISE TAXES."

The Series 2012 Bonds will be special obligations of the Authority, payable solely from the sources herein described. The Series 2012 Bonds will not be general obligations of the Authority, the City, the State of Arizona or any political subdivision thereof and do not constitute a debt or pledge of the full faith and credit of the Authority or the taxing power of the City (other than the excise taxing power of the City pursuant to the 2012 Lease) or of the State of Arizona or of any political subdivision, municipality or other local agency thereof. The Authority has no taxing power.

Contemporaneously with the delivery of the Series 2012 Bonds, the City intends to sublease the Project to Able Engineering and Component Services, Inc. ("Able") pursuant to a Sublease Agreement, dated as of February 1, 2012 (the "Sublease") between the City and Able, under which Able will agree to make sublease payments to the City ("Sublease Payments"). *However, none of the Project, the Sublease or the Sublease Payments will secure the City's* *obligation to make the Rental Payments under the 2012 Lease and neither the Trustee nor the owner of any Series 2012 Bond will have any right to exclude the Authority or the City from the Project as a remedy upon the occurrence of an event of default under the 2012 Lease.*

Certain words and terms used herein and not otherwise defined herein shall have the meanings ascribed to such words and terms in APPENDIX C – "SUMMARIES OF THE PRINCIPAL DOCUMENTS."

Reference to provisions of Arizona law, whether codified in the Arizona Revised Statutes or uncodified, or of the Arizona Constitution, are references to those current provisions. The provisions may be amended, repealed or supplemented.

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. Information from other sources has not been independently confirmed or verified by the Authority, the City, the Financial Advisor or the Underwriters and its accuracy is not guaranteed. The presentation of information, including tables of receipts from 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 or other affairs of the City.

To the extent that any statements made in this Official Statement involve matters of opinion or estimates whether or not expressly stated to be such, they are made as such and not as representation of fact or certainty and no representation is made that any of these opinions or estimates have been or will be realized.

Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as part of a contract with any original purchaser or subsequent owner of any Series 2012 Bond or beneficial interest therein.

THE SERIES 2012 BONDS

General Description

The Series 2012 Bonds will be dated the date of initial delivery and will mature on the dates and in the principal amounts and bear interest at the interest rates all as set forth on the inside front cover page hereof. Interest will be payable from the most recent January 1 or July 1 to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from their date, which interest shall be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing July 1, 2012 during the term of each of the Series 2012 Bonds.

The principal of and interest on the Series 2012 Bonds will be payable, when due, to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as the securities depository for a book-entry-only system for the Series 2012 Bonds. So long as the book-entry-only system is in effect for the Series 2012 Bonds, no document of any nature whatsoever need be surrendered as a condition to payment of the principal of and interest on the Series 2012 Bonds. Purchasers will not receive certificates representing their beneficial interest in the Series 2012 Bonds. Purchases of beneficial ownership interests in the Series 2012 Bonds will be made in book-entry-only form in the amount of $5,000 of principal due on a specific maturity date or any integral multiple thereof. See APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2012 Bonds maturing on or before July 1, 2022, are not subject to optional redemption prior to maturity. The Series 2012 Bonds maturing on or after July 1, 2024 are subject to optional redemption prior to maturity at the option of the Authority, upon direction from the City, from any available funds, in whole or in part, in denominations of $5,000 or integral multiples thereof from maturities selected by the City and by lot within a maturity, on July 1, 2022, and on any date thereafter by the payment of a redemption price equal to the principal amount of each such Series 2012 Bond called for redemption plus interest accrued to the date fixed for redemption, but without premium.

Mandatory Redemption. The Series 2012 Bonds maturing on July 1, 2024, July 1, 2027, July 1, 2032 and July 1, 2038, are subject to mandatory sinking fund redemption prior to their stated maturity on July 1 of the following years ("Redemption Dates") and in the following principal amounts at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, but without premium.

The Bonds maturing on July 1, 2024, are subject to mandatory sinking fund redemption on July 1 of the following years and in the following principal amounts at a price equal to the principal amount thereof plus interest accrued to the date of redemption, but without premium.

Term Bond Maturity July 1, 2024

Year	Principal Amount
2023	$ 575,000
2024 (Maturity)	605,000

The Bonds maturing on July 1, 2027, are subject to mandatory sinking fund redemption on July 1 of the following years and in the following principal amounts at a price equal to the principal amount thereof plus interest accrued to the date of redemption, but without premium.

Term Bond Maturity July 1, 2027

Year	Principal Amount
2025	$ 635,000
2026	665,000
2027 (Maturity)	700,000

The Bonds maturing on July 1, 2032, are subject to mandatory sinking fund redemption on July 1 of the following years and in the following principal amounts at a price equal to the principal amount thereof plus interest accrued to the date of redemption, but without premium.

Term Bond Maturity July 1, 2032

Year	Principal Amount
2028	$ 735,000
2029	770,000
2030	810,000
2031	850,000
2032 (Maturity)	890,000

The Bonds maturing on July 1, 2038, are subject to mandatory sinking fund redemption on July 1 of the following years and in the following principal amounts at a price equal to the principal amount thereof plus interest accrued to the date of redemption, but without premium.

Term Bond Maturity July 1, 2038

Year	Principal Amount
2033	$ 935,000
2034	980,000
2035	1,030,000
2036	1,085,000
2037	1,135,000
2038 (Maturity)	2,515,000

Whenever Series 2012 Bonds subject to such mandatory redemption are redeemed (other than pursuant to mandatory redemption) or are delivered to Trustee for cancellation, the principal amount of the Series 2012 Bonds of such maturity so retired shall satisfy and be credited against the mandatory redemption requirements for such maturity as designated by the Authority; *provided*, *however*, that following such reduction each mandatory redemption requirement is an integral multiple of $5,000. Such option must be exercised on or before the 60th day preceding the applicable mandatory redemption date, by furnishing the Trustee a certificate setting forth the extent of the credit to be applied with respect to the then current mandatory redemption requirement.

Extraordinary Mandatory Redemption. The Series 2012 Bonds are subject to special mandatory redemption prior to maturity on any date selected by the City not later than 180 days after the occurrence of a Determination of Taxability (as defined below) at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, but without premium. Any such special mandatory redemption shall be in whole unless it is finally determined as evidenced by an opinion of nationally recognized bond counsel addressed to the Authority and the Trustee that less than all the Series 2012 Bonds may be redeemed without adversely affecting the exclusion of interest on the remaining Series 2012 Bonds from gross income for federal income tax purposes, in which case only such amount need be redeemed.

"Determination of Taxability" means a Final Determination (as defined below) by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, or an opinion of nationally recognized bond counsel selected by the Authority to the effect that the interest payable on any Series 2012 Bond is or will become includable in the gross income of the owner of such Series 2012 Bond for federal income tax purposes (other than an owner who is a substantial user or related person within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")). "Final Determination" means, with respect to a private letter ruling or a technical advice memorandum or determination of the Internal Revenue Service, written notice thereof in a proceeding in which the Authority and the City had an opportunity to participate and otherwise means written notice of a determination from which no further right of appeal exists or from which no appeal is timely filed with any court of competent jurisdiction in the United States in a proceeding to which the Authority and the City were a party or in which the Authority and the City had the opportunity to participate.

If the Trustee receives written notice from any owner of a Series 2012 Bond stating that (a) such party has been notified in writing by the Internal Revenue Service that it proposes to include the interest on any Series 2012 Bond in the gross income of such party for the reasons stated in the definition of "Determination of Taxability" set forth above or any other proceeding has been instituted against such party which may lead to a Final Determination as described in the aforesaid definition, and (b) such party will afford the Authority and the City the opportunity to contest the same, either directly or in its name, and until a conclusion of any appellate review, if sought, then the Trustee shall promptly give notice thereof to the Authority, the City and the owners of Series 2012 Bonds then outstanding. If a Final Determination thereafter occurs, the Trustee shall make demand for prepayment of the unpaid debt service payments, or necessary portions thereof, from the City and give notice of the special mandatory redemption of the appropriate amount of Series 2012 Bonds on the date selected by the City within the required period of one hundred eighty (180) days.

Extraordinary Optional Redemption. The Series 2012 Bonds are subject to extraordinary optional redemption in whole prior to maturity on any date selected by the City if

(a) all or any part of the Special Facility is damaged or destroyed by fire, flood or other casualty, to such an extent as would substantially and adversely affect the Special Facility as an aircraft maintenance repair and overhaul facility and repairing and rebuilding the Special Facility would result in the City being denied effective use of the Special Facility, and the Authority and the City have agreed within 120 days after such damage or destruction not to repair and rebuild the Special Facility; or

(b) all or any part of the Project is appropriated or taken under the power of eminent domain or sold under threat thereof by any public or quasi-public authority and the City has determined within 120 days after such taking or sale that such taking or sale has substantially and adversely affected the Special Facility as an aircraft maintenance repair and overhaul facility.

at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, but without premium.

Notice of Redemption. Notice of any such redemption of any Series 2012 Bond will be provided to DTC not more than 60 nor less than 30 days before any redemption date. See APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM."

Selection of the Bonds for Redemption. The maturity of the Series 2012 Bonds to be redeemed through optional redemption as described above will be chosen by the City, and the Series 2012 Bonds within any maturity to be redeemed through optional or mandatory redemption as described above will be chosen by DTC through the procedures of its book-entry-only system, or, if the book-entry-only system is not in effect, then by lot from the maturity by the Trustee.

In lieu of redeeming the Series 2012 Bonds pursuant to the mandatory sinking fund redemption provisions described above, the Trustee may, at the written request of the City, use such funds otherwise available under the 2012 Trust Agreement for redemption of the Series 2012 Bonds to purchase the Series 2012 Bonds then subject to redemption in the open market, such Series 2012 Bonds to be delivered to the Trustee for the purpose of cancellation.

Defeasance

The Series 2012 Bonds will be subject to defeasance and may be paid or provided for with moneys or Defeasance Obligations (as defined in the 2012 Trust Agreement) through the Authority's exercise of its option to redeem the Series 2012 Bonds in accordance with the defeasance provision of the 2012 Trust Agreement. See APPENDIX C – "SUMMARIES OF THE PRINCIPAL DOCUMENTS."

THE AUTHORITY

The Authority is a Joint Powers Airport Authority comprised of the Cities of Mesa and Phoenix, the Towns of Queen Creek and Gilbert, and the Gila River Indian Community. The Authority was formed to develop, reuse, operate and maintain the airport property and facilities of the former Williams Air Force Base after its closure in 1993. A Joint Powers Airport Authority Agreement was executed on May 19, 1994, between the City of Mesa and the Towns of Gilbert and Queen Creek, providing for the formation of the Authority. This agreement was subsequently amended to include the Gila River Indian Community (1995), and the City of Phoenix (2006). The Authority currently operates and maintains the Phoenix-Mesa Gateway Airport, and all adjacent property located within the boundaries of the former Williams Air Force Base.

Phoenix-Mesa Gateway Airport (formerly known as Williams Gateway Airport) has three runways (10,401 feet, 10,201 feet, and 9,301 feet) and a newly expanded and remodeled passenger terminal. Phoenix-Mesa Gateway Airport is a small-hub commercial airport serving the Phoenix-Mesa metropolitan area and currently has two airlines, Allegiant Air and Spirit Airlines. Allegiant Air and Spirit Airlines provide direct service to over 30 cities. One of the fastest growing commercial airports in the United States, Phoenix-Mesa Gateway Airport served over 950,000 passengers in 2011 with an estimated 1.3 million expected for 2012. See APPENDIX A – "CITY OF MESA, ARIZONA – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION – Phoenix-Mesa Gateway Airport and the Airport/Campus District."

The Authority is governed by a five-member Board of Directors. The Board of Directors is comprised of the Mayors of Mesa, Gilbert and Queen Creek, the Vice Mayor of Phoenix, and the Lieutenant Governor of the Gila River Indian Community.

THE PROJECT

The Special Facility consists of the office, warehouse and hangar suitable for a maintenance, repair and overhaul facility for fixed wing or rotor aircraft or aircraft parts, aviation parts fabrication, modification and installation and related aircraft maintenance, repair and overhaul services which shall be comprised of a building of approximately 181,260 square feet, a paved parking area and related improvements thereon constructed by the Authority and leased to the City pursuant to the 2012 Lease.

The Project Site consists of a thirteen acre site located on the property of, and owned by, the Authority and leased to the City pursuant to the 2012 Lease.

Contemporaneously with the delivery of the Series 2012 Bonds, the City intends to sublease the Special Facility and the Project Site to Able pursuant to the Sublease. *However, none of the Project, the Sublease or the Sublease Payments will secure the City's obligation to make the Rental Payments under the 2012 Lease and neither the Trustee nor the owner of any Series 2012 Bond will have any right to exclude the Authority or the City from the Project as a remedy upon the occurrence of an event of default under the 2012 Lease.*

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 2012 BONDS

General

The Series 2012 Bonds will be payable solely from the Rental Payments, which are comprised of Base Rent and Premises Rent pursuant to the 2012 Lease. That portion of the Rental Payments designated as Base Rent is required to be sufficient to pay principal of and interest on the Series 2012 Bonds and will be payable from and secured by a pledge of, and lien on, Excise Taxes. Such pledge of, and lien on, the Excise Taxes will be subordinate to the pledge of, and lien on, the Excise Taxes for payment of the Senior Obligations (see "Senior Obligations" below) , and on a parity with that of other such subordinate obligations which may be issued in the future (together with the Series 2012 Bonds, the "Parity Subordinate Obligations"). For a description of the City's Excise Tax revenues, and for a record of the City's recent tax collection experience for each component of the Excise Taxes, see "Excise Tax Receipts" below, and APPENDIX H – "EXCISE TAXES." That portion of the Rental Payments designated as Base Rent will be paid by the City directly to the Trustee. That portion of the Rental Payments designated as Premises Rent will be paid by the City to the Authority.

THE PROCEEDS OF SERIES 2012 BONDS ARE NOT PLEDGED TO, NOR DO THEY SECURE PAYMENT OF THE SERIES 2012 BONDS.

Additional Bonds

In addition to the Series 2012 Bonds, the Authority may issue additional bonds ("Additional Bonds") from time to time under the 2012 Trust Agreement for any purpose permitted in the 2012 Trust Agreement. Additional Bonds shall be on a parity with the Series 2012 Bonds and any other Additional Bonds then outstanding.

The issuance of such Additional Bonds is subject to the following specific conditions:

(i) such Additional Bonds shall have been authorized to finance or refinance the cost of acquiring, constructing, reconstructing or improving buildings, equipment, and other real and personal properties as an maintenance, repair and operation facility or other airport related activities by and for leasing to the City or its agencies or instrumentalities provided that such financing or refinancing is related to the Special Facility, or for refinancing or advance refunding of Series 2012 Bonds or Additional Bonds and the issuance thereof as shall have been determined and declared by the Authority, by appropriate resolution, to be necessary for that purpose;

(ii) the Authority shall be in compliance with all covenants and undertakings set forth in the 2012 Lease and in the 2012 Trust Agreement;

(iii) the supplement to the 2012 Trust Agreement authorizing issuance of such Additional Bonds shall require that the proceeds of the sale thereof shall be applied solely for one or more of the purposes set forth in clause (i) and expenses and costs incidental thereto;

(iv) the Reserve Fund be increased as necessary to equal the Reserve Requirement applicable after issuance of the Additional Bonds;

(v) evidence of compliance with the requirement of the 2012 Lease for the issuance or incurrence of Parity Subordinate Obligations;

(vi) the supplement to the 2012 Lease providing for Base Rent payments in amounts sufficient to pay the Additional Bonds;

(vii) the purpose of the Additional Bonds must be in compliance with Title 28, Chapter 25, Article 8 of the Arizona Revised Statutes, as amended;

(viii) the purpose of the Additional Bonds must be in compliance with federal tax law requirements to operate a type of facility that constitutes an airport facility;

(ix) the obligation to make payments on the Additional Bonds from Lease Revenues shall not be subject to acceleration for any reason and such payments shall not be made immediately due and payable prior to their scheduled due date;

Senior Obligations

Senior Obligations are any presently outstanding or future notes, bonds or obligations of the City payable from a pledge of, and secured by a lien on, the Excise Taxes, senior in all respects and priority to the pledge of and lien on Excise Taxes securing the Base Rent due under the 2012 Lease. So long as the Series 2012 Bonds remain outstanding and the principal and interest thereon shall be unpaid or unprovided for the City covenants in the 2012 Lease that it will not further encumber the Excise Taxes pledged under the 2012 Lease on a basis senior to the pledge thereof unless the Excise Taxes received by the City in the next preceding Fiscal Year shall have amounted to at least two (2) times the highest combined debt service requirements for any succeeding Fiscal Year for amounts payable on any outstanding Senior Obligations and any parity Senior Obligations, including those so proposed to be secured by a pledge of the same Excise Taxes, and all Parity Subordinate Obligations including the Series 2012 Bonds. Subject to the foregoing the City shall have the right to incur future obligations payable from and secured by the Excise Taxes on a basis senior to the pledge under the 2012 Lease. See "ESTIMATED DEBT SERVICE REQUIREMENTS AND COVERAGE" herein.

The table below sets forth the City's currently outstanding Senior Obligations.

OUTSTANDING SENIOR OBLIGATIONS

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2009	Highway Project Advancement Notes	$ 20,000,000	7/1/2015	$ 20,000,000
2010	Highway Project Advancement Notes	25,000,000	7/1/2016	25,000,000
2011	Highway Project Advancement Notes	77,835,000	7/1/2017-21	77,835,000
	Total Senior Obligations Outstanding			$122,835,000

Additionally, the City expects to issue approximately $84,000,000 Senior Obligations in the second calendar quarter of 2012.

Parity Subordinate Obligations

In the 2012 Lease the City covenants that so long as any of the Series 2012 Bonds remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, the City will not further encumber the Excise Taxes pledged under the 2012 Lease by the issuance or incurrence of additional obligations secured by Excise Taxes on a parity with the Series 2012 Bonds, whether issued as Additional Bonds under the 2012 Trust Agreement or otherwise unless the Excise Taxes received by the City in the next preceding Fiscal Year shall have amounted to at least two (2) times the highest combined debt service requirements for any succeeding Fiscal Year for amounts payable on any outstanding Senior Obligations, parity Senior Obligations, the Series 2012 Bonds and any Parity Subordinate Obligations, including those proposed to be issued and secured by a pledge of the Excise Taxes. Subject to the foregoing the City shall have the right to incur future Parity Subordinate Obligations payable from and secured by the Excise Taxes. See "ESTIMATED DEBT SERVICE REQUIREMENTS AND COVERAGE" herein.

Covenant to Maintain Unrestricted Excise Taxes

Pursuant to the 2012 Lease, Excise Taxes must be maintained by the City so that the combined amount of Excise Taxes in any fiscal year of the City will be equal to at least two times the total of all debt service requirements of the Senior Obligations and the debt service requirements on the Series 2012 Bonds and any Parity Subordinate Obligations payable during such fiscal year. If receipts from Excise Taxes for the preceding fiscal year shall not equal at least two times the debt service requirements of the Senior Obligations and the debt service requirements of the Series 2012 Bonds and any Parity Subordinate Obligations payable for the current fiscal year, the City will covenant to promptly impose new taxes of the type included within the definition of "Excise Taxes" or other City taxes or fees, or increase the rates for the Excise Taxes currently imposed in order that (i) the current receipts will be sufficient to meet all such requirements under the 2012 Lease, and (ii) the current year's receipts will be reasonably calculated to attain the level as required above for the succeeding fiscal year's debt service requirements of the Senior Obligations and the debt service requirements of the Series 2012 Bonds and any Parity Subordinate Obligations. Under the City's Charter, sales tax cannot be raised above a rate of 1% of gross proceeds of sales or gross income without a vote of the City's electors, see "BONDHOLDER'S RISKS." The City's current sales tax rate is 1.75%, which is comprised of 1.20% the use of which is unrestricted, 0.25%, the use of which is restricted to health, safety and other quality of life uses and 0.30%, the use of which is restricted to street projects in the City. Of these, only the City's sales tax for general government purposes of 1.20% is pledged for payment of the Base Rent due under the 2012 Lease subject to the prior lien in favor of Senior Obligations.

Reserve Fund

The 2012 Trust Agreement establishes a Reserve Fund (as defined in the 2012 Trust Agreement) for payment of principal of and interest on the Series 2012 Bonds and any Additional Bonds, and requires that the Reserve Fund be maintained at the Reserve Requirement (as defined in the 2012 Trust Agreement). The initial Reserve Requirement is $1,322,000 which will be funded at the time of delivery with cash provide from proceeds of the Series 2012 Bonds. See APPENDIX C – "SUMMARIES OF THE PRINCIPAL DOCUMENTS," for a discussion of periodic valuations and replenishment of the Reserve Fund, funding requirements upon the issuance of Additional Bonds, and the substitution of qualifying surety bonds or debt service insurance policies for cash therein.

EXCISE TAX RECEIPTS (a) (b) (c)

The following table sets forth the record of Excise Taxes received by the City for the most recent five fiscal years for which such information is available. The table is intended to show the City's recent financial experience only, and is not intended to indicate future or continuing trends in the financial position, or operations, of the City. For descriptions of the City's revenue components comprising Excise Taxes, see APPENDIX H – "EXCISE TAXES."

Excise Tax Revenue Source	**2010/11**	**2009/10**	**2008/09**	**2007/08**	**2006/07**
City Sales and Use Tax	$ 83,409,001	$ 84,187,512	$ 89,246,282	$104,378,425	$105,738,698
State-shared Sales Tax	34,220,312	32,883,713	35,651,937	41,181,799	42,590,358
State-shared Income Tax	43,067,956	56,667,428	66,268,144	63,391,412	51,889,622
State-shared Vehicle License Tax (Auto Lieu)	15,324,590	15,029,252	15,622,813	17,987,519	18,568,802
Licenses, Fees and Permits	9,291,101	9,271,058	10,223,882	15,563,330	14,288,518
Fines and Forfeitures	15,560,437	10,508,203	12,431,371	13,244,486	13,685,021
Total Revenues	$200,873,397	$208,547,166	$229,444,429	$255,746,971	$246,761,019

Source: City of Mesa.

(a) The table above indicates a series of declines in the receipts of Excise Taxes since fiscal year 2006/07. Such declines occurred primarily in City's receipts from the City's Sales and Use Tax and State-Shared Income Tax Revenues and reflect continuing effects from weakened general economic conditions within the City and the State during such period.

(b) On May 19, 1998, the City's voters approved an increase in the City's transaction privilege (sales) tax rate from 1.00% to 1.50%. 0.50% of 1.50% transaction privilege (sales) tax rate was restricted to health, safety and other quality of life uses. 0.25% such increase in the tax rate restricted to health, safety and other quality of life uses expired in May of 2006.

On May 16, 2006, the City's voters approved an increase in the City's transaction privilege (sales) tax rate from 1.25% to 1.75%. 0.30% of the 1.75% was restricted to street projects in the City and 0.25% continue to be restricted to health, safety and other quality of life uses. The remaining 1.20% was unrestricted as to use and could be used for general government purposes. The City's sales tax for general government purposes of 1.20% is pledged for payment of the Base Rent due under the 2012 Lease subject to the prior lien in favor of the Senior Obligations.

(c) Does not include excise taxes imposed or earmarked by the City for specific purposes, which currently includes excise taxes levied and paid to the City under (i) the .25% transaction privilege (sales) and use tax approved by the voters of the City on May 19, 1998, the use of which is restricted to health, safety and other quality of life uses, (ii) the .30% transaction privilege (sales) and use tax approved by the voters of the City on May 16, 2006, the use of which is restricted to streets projects in the City, (iii) any transient lodging tax (formerly known as transient occupancy tax) or (iv) any other similar tax restricted as to its use.

CITY GENERAL FUND

Set forth below is a record of the City's general fund revenues, expenditures and changes in fund balance for the most recent five fiscal years for which such information is available. This information is not intended to indicate future or continuing trends in the financial affairs of the City.

CITY OF MESA, ARIZONA
GENERAL FUND
REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	2010/11 (a)	2009/10	2008/09	2007/08	2006/07
Revenue:					
Taxes	$ 117,240,512	$ 138,272,340	$ 132,691,935	$ 151,747,991	$ 156,905,125
Licenses and Permits	9,291,101	9,271,058	10,223,882	15,563,330	14,288,518
Intergovernmental Revenues	114,736,929	137,769,895	139,508,341	139,114,028	134,996,455
Charges for Services	12,126,961	11,842,883	19,603,550	19,835,638	18,901,904
Fines and Forfeitures	15,560,437	10,508,203	12,431,371	13,244,486	13,685,021
Interest	371,502	347,471	1,197,337	3,504,110	4,379,672
Miscellaneous Revenues	6,522,858	12,263,886	14,689,460	5,078,308	5,248,664
Total Revenues	$ 275,850,300	$ 320,275,736	$ 330,345,876	$ 348,087,891	$ 348,405,359
Expenditures:					
Current:					
General Government	$ 40,651,542	$ 42,203,367	$ 39,438,068	$ 50,558,757	$ 42,152,077
Public Safety	208,435,711	211,004,366	229,423,718	232,566,800	211,462,565
Cultural — Recreational	42,210,525	40,124,198	63,224,441	58,235,974	55,293,891
Community Environment	11,649,682	37,937,374	25,349,133	13,870,956	11,215,020
Bad Debts	5,399,422	2,958,519	6,161,310	3,402,621	4,429,356
Total Current Expenditures	$ 308,346,882	$ 334,227,824	$ 363,596,670	$ 358,635,108	$ 324,552,909
Revenues Over (Under) Current Expenditures	(32,496,582)	(13,952,088)	(33,250,794)	(10,547,217)	23,852,450
Capital Outlay	$ 18,654,128	$ 22,029,244	$ 43,369,123	$ 48,685,670	$ 36,908,429
Debt Service	30,608,530	32,459,810	23,425,942	22,275,626	6,133,415
Total Other Expenditures	$ 49,262,658	$ 54,489,054	$ 66,795,065	$ 70,961,296	$ 43,041,844
Revenues Over (Under) Expenditures	$ (81,759,240)	$ (68,441,142)	$ (100,045,859)	$ (81,508,513)	$ (19,189,394)
Operating Transfers in (Net)	76,471,493	75,875,427	92,344,300	84,658,055	60,897,000
Revenues and Transfers Over (Under) Expenditures	$ (5,287,747)	$ 7,434,285	$ (7,701,559)	$ 3,149,542	$ 41,707,606
Unrestricted Fund Balance-Beginning	$ 84,182,283	$ 72,619,705	$ 57,200,270	$ 59,342,239	$ 31,365,092
(Increase)/Decrease Restricted Funds	14,373,198	4,128,293	23,120,994	(5,291,511)	(13,730,459)
Unrestricted Fund Balance-Ending	$ 93,267,734	$ 84,182,283	$ 72,619,705	$ 57,200,270	$ 59,342,239
Restricted Funds	3,207,978	41,495,645	45,623,938	68,744,932	63,453,422
Total Fund Balance Ending	$ 96,475,712	$ 125,677,928	$ 118,243,643	$ 125,945,202	$ 122,795,661

Source: City of Mesa.

(a) Beginning with Fiscal Year 2010/11, the City reclassified the Street Sales Tax Fund from the General Fund to the Special Revenue Funds. In addition, the City reclassified the Public Art Fund from the Special Revenue Funds to the General Fund. These changes were required due to the implementation of GASB Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions.*

CITY ENTERPRISE FUNDS

The City annually provides for a significant portion of the City's general fund revenue from the transfer of certain net revenues generated by the City's enterprise funds, particularly the utility systems enterprise fund. Set forth below is a record of City enterprise fund revenues, expenditures and changes in fund balance for the most recent five fiscal years for which such information is available. This information is not intended to indicate future or continuing trends in the financial affairs of the City.

CITY OF MESA, ARIZONA
ENTERPRISE FUNDS
REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	2010/11	2009/10	2008/09	2007/08	2006/07
Operating Revenues	$ 293,248,822	$ 285,377,486	$ 278,296,654	$ 284,407,946	$ 274,993,531
Operating Expense	147,084,945	148,624,595	146,302,523	163,518,228	150,432,729
Net Income from Operations	$ 146,163,877	$ 136,752,890	$ 131,994,131	$ 120,889,718	$ 124,560,802
Development Fees	$ 3,258,128	$ 3,654,875	$ 4,242,229	$ 10,556,354	$ 5,761,946
Miscellaneous Income	9,357,069	7,285,237	9,793,960	17,376,001	8,403,570
Interest Income	594,963	2,604,362	1,637,389	7,429,423	7,496,514
Capital Expense	(5,249,048)	(9,170,914)	(8,798,722)	(9,500,323)	(5,658,704)
Debt Service	(61,911,030)	(57,591,314)	(53,195,886)	(49,471,102)	(35,521,715)
Income before Transfers	$ 92,213,959	$ 83,535,136	$ 85,673,101	$ 97,280,072	$ 105,042,413
Operating Transfers (Out)	(83,615,000)	(84,446,727)	(96,599,000)	(94,140,326)	(67,188,000)
Net Income	$ 8,598,959	$ (911,591)	$ (10,925,899)	$ 3,139,746	$ 37,854,413
Beginning Balance	57,769,152	58,680,743	69,606,642	66,466,896	28,612,484
Ending Balance	$ 66,368,111	$ 57,769,152	$ 58,680,743	$ 69,606,642	$ 66,466,896

Source: City of Mesa.

CITY SPECIAL REVENUE FUNDS

Set forth below is a record of City special revenue fund revenues, expenditures and changes in fund balance for the most recent five fiscal years for which such information is available. This information is not intended to indicate future or continuing trends in the financial affairs of the City.

CITY OF MESA, ARIZONA
SPECIAL REVENUE FUNDS
REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	2010/11 (a)	2009/10	2008/09	2007/08	2006/07
Revenues					
Taxes	$ 20,792,000	$ -	$ -	$ -	$ -
Intergovernmental Revenues	54,615,988	53,215,344	51,503,282	55,126,284	55,605,260
Charges for Service	8,345,404	8,679,786	5,065,834	4,018,647	3,243,614
Licenses and Permits	3,286,325	2,552,700	3,202,525	7,778,786	5,839,156
Fines and Forfeitures	108,004	770,604	735,484	616,385	590,788
Interest	132,166	22,613	198,220	1,106,291	1,394,265
Miscellaneous Revenues	247,404	1,103,590	333,055	1,443,871	1,295,490
Total Revenues	$ 87,527,291	$ 66,344,637	$ 61,038,400	$ 70,090,264	$ 67,968,573
Expenditures					
Current:					
Public Safety	$ 5,985,101	$ 5,242,813	$ 3,653,689	$ 2,441,978	$ 772,867
Cultural And Recreational	-	20,550	10,000	-	11,912
Community Environment	56,830,610	34,127,090	47,433,578	52,816,248	54,255,106
Total Current Expenditures	$ 62,815,711	$ 39,390,453	$ 51,097,267	$ 55,258,226	$ 55,039,885
Revenues Over (Under) Current Expenditures	$ 24,711,580	$ 26,954,184	$ 9,941,133	$ 14,832,038	$ 12,928,688
Capital Outlay	$ 16,357,901	$ 8,940,829	$ 5,535,581	$ 8,356,448	$ 7,895,606
Debt Service	17,032,604	17,766,064	12,766,806	12,465,765	11,220,262
Total Other Expenditures	$ 33,390,505	$ 26,706,893	$ 18,302,387	$ 20,822,213	$ 19,115,868
Revenues Over (Under) Expenditures	$ (8,678,925)	$ 247,291	$ (8,361,254)	$ (5,990,175)	$ (6,187,180)
Operating Transfers In	7,476,076	6,908,000	4,246,700	8,859,271	5,784,000
Operating Transfers Out	(125,000)				
Revenues and Transfers Over (Under) Expenditures	$ (1,327,849)	$ 7,155,291	$ (4,114,554)	$ 2,869,096	$ (403,180)
Beginning Balance	48,607,173	24,714,289	28,828,843	25,959,747	26,362,927
Ending Balance	$ 47,279,324	$ 31,869,580	$ 24,714,289	$ 28,828,843	$ 25,959,747

Source: City of Mesa.

(a) Beginning with Fiscal Year 2010/11, the City reclassified the Street Sales Tax Fund from the General Fund to the Special Revenue Funds. In addition, the City reclassified the Public Art Fund from the Special Revenue Funds to the General Fund. These changes were required due to the implementation of GASB Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*.

SOURCES AND USES OF FUNDS

The proceeds of the Series 2012 Bonds will be applied substantially as follows:

Sources of Funds:	
The Series 2012 Bonds	$19,220,000.00
Original Issue Premium	653,627.30
Total Sources of Funds	$19,873,627.30
Uses of Funds:	
Costs of Issuance*	$ 389,568.00
Acquisition and Construction Fund	16,953,746.00
Reserve Fund	1,322,000.00
Interest Account of the Bond Retirement Fund	1,208,313.30
Total Uses of Funds	$19,873,627.30

* Certain costs incurred by the City in connection with the issuance of the Series 2012 Bonds, including Underwriters' compensation, will be paid from the proceeds of the issue.

DEBT SERVICE REQUIREMENTS AND COVERAGE (a)

The table below sets forth (i) the combined annual debt service requirements of the outstanding Senior Obligations, (ii) the annual debt service requirements of the Series 2012 Bonds, (iii) the combined debt service requirements of these obligations, and (iv) the estimated debt coverage ratio for such combined debt service requirements.

Fiscal Year Ending (June 30)	Pledged Excise Taxes (b)	Senior Obligations Outstanding	The Series 2012 Bonds		Combined Annual Debt Service	Estimated Combined Annual Debt Service Coverage (d)
			Principal	Interest (c)		
2012	$200,873,397	$ 4,312,398		$ 305,136	$ 4,617,534	43.50x
2013		5,404,250		900,400	6,304,650	
2014		5,404,250	$ 420,000	900,400	6,724,650	
2015		25,404,250	430,000	887,800	26,722,050	
2016		29,704,250	445,000	874,900	31,024,150	6.48x
2017		17,976,750	460,000	861,550	19,298,300	
2018		17,987,500	470,000	847,750	19,305,250	
2019		17,972,500	490,000	828,950	19,291,450	
2020		17,971,250	510,000	809,350	19,290,600	
2021		17,981,250	530,000	788,950	19,300,200	
2022			550,000	767,750	1,317,750	
2023			575,000	745,750	1,320,750	
2024			605,000	717,000	1,322,000	
2025			635,000	686,750	1,321,750	
2026			665,000	655,000	1,320,000	
2027			700,000	621,750	1,321,750	
2028			735,000	586,750	1,321,750	
2029			770,000	550,000	1,320,000	
2030			810,000	511,500	1,321,500	
2031			850,000	471,000	1,321,000	
2032			890,000	428,500	1,318,500	
2033			935,000	384,000	1,319,000	
2034			980,000	337,250	1,317,250	
2035			1,030,000	288,250	1,318,250	
2036			1,085,000	236,750	1,321,750	
2037			1,135,000	182,500	1,317,500	
2038			2,515,000	125,750	2,640,750	
			$19,220,000			

(a) Prepared by Wedbush Securities Inc. (the “Financial Advisor”).

(b) Represents the City’s Excise Tax Receipts for fiscal year 2010/11.

(c) The first interest payment on the Series 2012 Bonds is due on July 1, 2012, representing interest from the initial execution and delivery of the Series 2012 Bonds. Thereafter, interest payments will be made semiannually on January 1 and July 1, until maturity or prior redemption of the Series 2012 Bonds.

(d) Debt Service Coverage is computed using the Excise Taxes of $200,873,397 for fiscal year 2010/11. See “EXCISE TAX RECEIPTS”, herein.

BONDHOLDERS' RISKS

The discussion herein of risks to the owners of the Series 2012 Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the Series 2012 Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein.

Excise Taxes and Economic Conditions in the City and the State

The Base Rent is secured by a subordinate lien pledge of Excise Taxes, as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS" or APPENDIX H – "EXCISE TAXES." The amount of Excise Taxes at any time is largely dependent upon the level of retail and other sales activity, which level is, in turn, dependent upon the level of economic activity in the City and in the State generally.

The economy of the City, as in the State as a whole, continues to be weak, as evidenced by a series of decreases in annual receipts of Excise Taxes, continuing high unemployment rate and other economic indicators. Current domestic and international economic conditions have had, and are expected to continue to have, negative repercussions for the City. State, national and global economies, including reduced revenues for government, high unemployment, a scarcity of credit, reduced confidence in the financial sector, volatility in the financial markets, potential increase in interest costs and weak business activity, increased consumer bankruptcies and increased business failures and bankruptcies. Governmental bodies in the State, including the City, are addressing budget deficits, in part, by reducing expenditures for public employees through lay-offs and other cost cutting measures.

For additional information relating to historic and current economic conditions in the City which indicate a slowdown in the current economy of the City, see "City of Mesa Excise Tax Receipts" above and APPENDIX A – "CITY OF MESA, ARIZONA – GENERAL AND DEMOGRAPHIC INFORMATION."

Voter Approval Necessary for Certain Tax Increases

The City's Transaction Privilege (Sales) Tax is levied by the City upon persons on account of their business activities within the City. The amount of taxes due are calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities shown in the City Transaction Privilege (Sales) Tax Rates by Category in APPENDIX H. Excise Tax revenues are collected on a monthly basis. Under the City's Charter, its Transaction Privilege (Sales) Tax cannot be raised above a rate of 1% of gross proceeds of sales or gross income without a vote of the City's electors. The City's current Transaction Privilege (Sales) Tax rate is 1.75%, which is comprised of 1.20% the use of which is unrestricted as to use, 0.25%, the use of which is restricted to health, safety and other quality of life uses and 0.30%, the use of which is restricted to street projects in the City. Of these, only the City's sales tax for general government purposes of 1.20% is pledged for payment of the Base Rent due under the 2012 Lease and subject to the prior lien in favor of the Senior Obligations. Accordingly, any additional increases in the Transaction Privilege (Sales) Tax rate would require voter approval.

Legislative Ability to Eliminate or Reduce State-Shared Taxes

The State has shared transaction privilege tax receipts with Arizona cities and towns continuously since 1942 and shared income tax receipts continuously since 1972. However, the State Legislature may eliminate State-shared sales and income taxes and any other State-shared revenues or may change the amount and timing of State-shared sales and income taxes and any other State-shared revenues and is under no legal obligation to maintain the amount of State-shared sales and income taxes or any other State-shared revenues distributed to the City at any amount or level. Accordingly, the City is unable to maintain its State-shared sales and income taxes at any particular level of coverage for payment of that portion of the Rental Payments designated as Base Rent which is used by the Authority to pay debt service on the Series 2012 Bonds. But see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS – Covenant to Maintain Unrestricted Excise Taxes" regarding the City's covenants to maintain overall unrestricted Excise Tax receipts at certain levels.

From time to time, bills are introduced in the State Legislature to make changes to the formulas used to allot State-shared sales taxes and State revenue sharing. The possibility of changes in this regard are more likely to be adverse to the City when the State is experiencing financial difficulties. The continuing budget difficulties currently being experienced by the State for fiscal year 2011/12 increase the likelihood of changes to such formulas that could have adverse results for the City. The City cannot determine whether any such measures will become law or how they might affect the revenues that comprise the Excise Taxes. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law which repeal or modify State sales taxes and State income taxes (the major sources of funds for State revenue sharing). The City cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

RATINGS

Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service ("Moody's") have assigned credit ratings of "AA+" and "A1", respectively, to the Series 2012 Bonds. Such ratings reflect only the views of S&P and Moody's. An explanation of the significance of such ratings may be obtained from S&P at 55 Water Street, New York, New York 10041 and from Moody's at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Such ratings may subsequently be revised downward or withdrawn entirely by S&P or Moody's, if, in their judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Series 2012 Bonds. The City will covenant in its continuing disclosure certificate (see "CONTINUING SECONDARY MARKET DISCLOSURE" below) that it will cause notices to be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA") of any formal change in the ratings relating to the Series 2012 Bonds.

LEGAL MATTERS

Legal matters relating to the issuance and delivery of the Series 2012 Bonds, the validity of the Series 2012 Bonds under Arizona law and the tax-exempt status of the interest on the Series 2012 Bonds (see "TAX EXEMPTION") are subject to the legal opinion of Gust Rosenfeld P.L.C., ("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 initial execution and delivery of the Series 2012 Bonds, will be delivered to the City at the time of initial execution and delivery of the Series 2012 Bonds.

The proposed text of the legal opinion is set forth as APPENDIX E. The legal opinion to be delivered may vary from the text of APPENDIX E if necessary to reflect the facts and law on the date of initial execution and 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 Series 2012 Bonds subsequent to the original delivery of the Series 2012 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.

Certain legal matters will be passed upon for the Authority by Gust Rosenfeld, PLC, Counsel to the Authority. Certain legal matters will be passed upon for the City by Gust Rosenfeld, PLC, Bond Counsel.

Certain legal matters will be passed upon for the Underwriters by Squire Sanders (US) LLP, Counsel to the Underwriters.

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 Authority and the City, as described below, interest income on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Series 2012 Bonds for any period which it is held by a "substantial user" or a "related person", as these terms are used in Section 147(a) of the Code. However, interest on the Series 2012 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

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 Authority and the City, as described below, interest income on the Series 2012 Bonds is exempt under Arizona law. A form of such opinion is included herein in APPENDIX E: "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 Series 2012 Bonds from gross income for federal income tax purposes, including a requirement that the Authority rebate to the federal government certain of its investment earnings with respect to the Series 2012 Bonds. The Authority 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 Series 2012 Bonds being included in gross income for federal income tax purposes, under certain circumstances, from the date of issuance. The opinion of Bond Counsel assumes continuing compliance with such restrictions, conditions and requirements.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2012 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2012 Bonds will not have an adverse effect on the tax status of interest on the Series 2012 Bonds or the market value or marketability of the Series 2012 Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2012 Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, on February 13, 2012, President Obama proposed a budget for federal fiscal year 2012 that calls for a 28% across-the-board cap on the value of tax preferences, including the exclusion of interest income on State and local bonds. If enacted, a value cap on the exclusion of interest on State and local bonds would, among other things, result in additional federal income tax for tax years beginning after 2012 on taxpayers that own tax-exempt bonds or obligations, including the Series 2012 Bonds, if they have incomes above certain thresholds.

BOND PREMIUM

An amount equal to the excess of the purchase price of each Series 2012 Bond of each maturity over its stated redemption price at maturity constitutes premium on such Series 2012 Bond ("Premium Bond"). A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the Premium Bond's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Premium Bond at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such Premium Bonds.

LITIGATION

At the time of delivery of the Series 2012 Bonds, appropriate officials of the Authority and 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 Authority and City, threatened against the Authority or the City, affecting the existence of the Authority, the City or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2012 Bonds or that questions the Authority's right or authority to receive the sources of payment of the Series 2012 Bonds or the City's right or authority to pledge its Excise Taxes to the Base Rent due under the 2012 Lease, or in any way contesting or affecting the validity or enforceability of the Series 2012 Bonds, the 2012 Trust Agreement, the 2012 Lease 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 2012 Trust Agreement, the 2012 Lease or the Continuing Disclosure Certificate, or wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2012 Bonds, the 2012 Trust Agreement, the 2012 Lease or the Continuing Disclosure Certificate, or have a material adverse effect on the transaction contemplated by this Official Statement.

UNDERWRITING

Piper Jaffray & Co. and Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriters") have agreed to purchase the Series 2012 Bonds at an aggregate purchase price of $19,764,059.30 pursuant to a purchase contract (the "Purchase Contract") entered into by and between the Authority and the Underwriters. If the Series 2012 Bonds are sold to produce the yields shown on the inside front cover page hereof, the Underwriters' compensation will be $109,568.00. The Purchase Contract provides that the Underwriters will purchase all of the Series 2012 Bonds so offered, if any, are purchased. The Underwriters may offer and sell the Series 2012 Bonds to certain dealers (including dealers depositing Series 2012 Bonds into unit investment trusts) and others at prices lower or yields higher than the public offering prices stated on the front cover page hereof. The initial offering prices or yields set forth on the front cover may be changed from time to time by the Underwriters.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Series 2012 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

CERTIFICATION CONCERNING OFFICIAL STATEMENT

The closing documents will include a certificate confirming that, to the best knowledge, information and belief of the Authority's Chair and the City's Senior Executive Manager, the descriptions and statements contained in this Official Statement are at the time of issuance of the Series 2012 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.

FINANCIAL ADVISOR

The Financial Advisor has been engaged by the Authority and the City for the purpose of advising the Authority and the City as to certain debt service structuring matters specific to the Series 2012 Bonds and on certain matters relative to the City's overall debt financing program. The Financial Advisor has assisted in the assembly and preparation of this Official Statement at the direction and on behalf of the City. No person is entitled to rely on the Financial Advisor's participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy and completeness of the information contained herein.

CONTINUING SECONDARY MARKET DISCLOSURE

The City will covenant for the benefit of the owners of the Series 2012 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, 2013 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notices"), as set forth in APPENDIX F. 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's 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 Underwriters 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 Series 2012 Bonds in the secondary market. Absence of continuing disclosure could adversely affect the Series 2012 Bonds and specifically their market price and transferability.

The City has complied with all existing continuing disclosure undertakings related to the City in all material respects.

CANCELLATION OF CONTRACTS

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

GENERAL PURPOSE FINANCIAL STATEMENTS

The General Purpose Financial Statements of the City for the year ended June 30, 2011, a copy of which is included in APPENDIX C of this Official Statement, have been audited by LarsonAllen 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, 2011 and are not current. The City neither requested nor obtained the consent of LarsonAllen LLP to include the report, and LarsonAllen 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 matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations or fact of certainty and no representation is made that any of these statements have been or will be realized. Information set forth in this Official Statement has been derived from the records of the Authority and the City and from certain other sources, as referenced, and is believed by the Authority and the City to be accurate and reliable. Information other than that obtained from official records of the Authority and the City has not been independently confirmed or verified by the Authority and 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 Series 2012 Bonds.

This Official Statement has been prepared by the Authority and executed for and on behalf of the Authority by its Chair.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY

By: /s/ John Lewis
Chair

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 441,160. The following table illustrates the City's population statistics since 1980, along with the population statistics for the County and the State, respectively.

POPULATION STATISTICS

Year	City of Mesa	Maricopa County	State of Arizona
2011 Estimate*	441,160	3,843,370	6,438,178
2010 Census	439,041	3,817,117	6,392,017
2000 Census	396,375	3,072,149	5,130,632
1990 Census	288,091	2,122,101	3,665,305

Source: Arizona Department of Administration, Office of Employment and Population Statistics and US Census Bureau, American FactFinder.

* Estimate as of July 1, 2011.

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 councilmember selected by the City Council.

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

City Administrative Staff

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

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

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

Chuck Odom, Senior Executive Manager. Mr. Odom has been with the City in various positions since March 1987. He was promoted to Budget Director in February 2006 and Senior Executive Manager in December 2010. He earned a Bachelor of Science Degree in Accountancy from Northern Arizona University.

Economy

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

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

UNEMPLOYMENT AVERAGES

Year	United States	State of Arizona	Maricopa County	City of Mesa
2011	8.9%*	9.2%*	8.3%**	7.6%**
2010	9.6	10.0	8.6	8.0
2009	9.3	9.7	8.3	7.6
2008	5.8	5.9	5.1	4.7
2007	4.6	3.8	3.3	3.0
2006	4.6	4.1	3.5	3.3

* Data is a preliminary average.

** Data is not seasonally adjusted and is a preliminary average through November 2011.

Source: U.S. Department of Labor, Bureau of Labor Statistics & State of Arizona, Department of Commerce, Research Administration, CES/LAUS Unit.

Manufacturing and Non-Manufacturing Employment

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

MAJOR EMPLOYERS
City of Mesa, Arizona

Employer	Description	Approximate Employment
Mesa Public Schools	Public Education	8,800
Boeing, Inc.	Helicopter Manufacturing and Assembly	4,700
City of Mesa	Government	3,500
Banner Desert Medical Center	Hospital	3,400
Banner Baywood Medical Center	Hospital	2,000
Empire Southwest / Caterpillar LLC	Construction Machinery	1,800
Maricopa County Government	Government	1,300
The Kroger Company	Grocery Store	1,000
Mountain Vista Medical Center	Hospital	900
Mesa Community College	Education	700

Source: City of Mesa – Office of Economic Development, Phoenix Business Journal Book of Lists 2011 and an individual employer survey.

Phoenix-Mesa Gateway Airport and the Airport/Campus District

Phoenix-Mesa Gateway Airport (formerly known as Williams Gateway Airport) has three runways (10,401 feet, 10,201 feet, and 9,301 feet) and a newly expanded and remodeled passenger terminal. Phoenix-Mesa Gateway Airport is a small-hub commercial airport serving the Phoenix-Mesa metropolitan area and currently has two airlines, Allegiant Air and Spirit Airlines. Allegiant Air and Spirit Airlines provide direct service to over 30 cities. One of the fastest growing commercial airports in the United States, Phoenix-Mesa Gateway Airport served over 950,000 passengers in 2011 with an estimated 1.3 million expected for 2012.

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

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

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

The Arizona Department of Transportation has recently awarded the contract for construction of State Route 24, a one-mile freeway segment extending access from the existing State Route 202 freeway eastward. This freeway segment lies immediately north of Phoenix-Mesa Gateway Airport, and will provide freeway access to the east side of the airport property. Such access will be beneficial for the economic development of properties located on, and adjacent to, Phoenix-Mesa Gateway Airport, as well as future terminal development on the east side.

Construction

The following tables set forth annual records of building permit values and new housing permits issued within the City for the period 2007-2011.

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

Year	Residential	Commercial	Industrial	Other	Total
2011	$169,238	$ 293,054	-	$ 35,323	$497,615
2010	153,146	26,125	$2,697	44,181	226,149
2009	162,040	63,988	6,550	35,306	267,884
2008	140,104	291,678	18,519	196,585	646,886
2007	32,093	54,446	24,242	34,749	145,530

Source: Arizona State University Realty Studies and the City. Note that the report obtains its data from County and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date on which the permit is issued is not to be construed as the date of construction.

NEW HOUSING PERMITS
City of Mesa, Arizona

Year	Total New Housing Units
2011	1,447
2010	782
2009	1,093
2008	1,460
2007	1,631

Source: Arizona State University Realty Studies and the City. Note that the report obtains its data from County and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date on which the permit is issued is not to be construed as the date of construction.

Retail

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

TAXABLE
RETAIL SALES
City of Mesa, Arizona

Year	Retail Sales
2010/11	$3,458,279,940
2009/10	3,662,333,085
2008/09	4,955,009,829
2007/08	5,638,200,343
2006/07	6,064,941,444

Source: City of Mesa.

Agriculture

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

Tourism

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

The table below contains a listing of certain hotels located within the City.

HOTELS
City of Mesa, Arizona

Hotel Name	Number of Sleeping Rooms
Phoenix Marriott Mesa	273
Hilton Phoenix East-Mesa	263
Holiday Inn Mesa	246
Dobson Ranch Inn	213
Arizona Golf Resort	187
Hyatt Place Phoenix-Mesa	150
Marriott Courtyard	149
Mezona	132
Country Inn and Suites	126
La Quinta (West)	125
Quality Inn/Suites	120

Source: Mesa Convention and Visitors Bureau.

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

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

CITY OF MESA, ARIZONA
FINANCIAL DATA

Current Year Statistics (For Fiscal Year 2011/12)
City of Mesa, Arizona

Total General Obligation Bonds Outstanding	$ 283,735,000	(a)
Total Utility Systems Revenue Bonds Outstanding	901,678,312	(b)
Total Street and Highway User Revenue Bonds Outstanding	128,515,000	(c)
Total Excise Tax Obligations to be Outstanding	142,055,000	(d)
Primary Assessed Valuation	$ 3,146,946,536	(e)
Secondary Assessed Valuation	3,164,277,311	(e)
Estimated Full Cash Value	25,508,872,276	(f)

Estimated Net Assessed Values (For Fiscal Year 2012/13) (g)

Primary Assessed Valuation	$2,758,663,543
Secondary Assessed Valuation	2,770,422,084

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

(b) Represents all utility systems revenue bonds outstanding. See “Statements of Bonds Outstanding — Utility Systems Revenue Bonds 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 to be outstanding including the Series 2012 Bonds. See “Statements of Bonds Outstanding — Excise Tax Obligations to be Outstanding” in this appendix.

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

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

(g) Estimated valuations for Fiscal Year 2012/13 provided by the Arizona Department of Revenue. Valuations for Fiscal Year 2012/13 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 Outstanding (h)
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Refunding	24,840,000	7-1-04/15	$ 5,050,000
2002A	Refunding	40,105,000	7-1-10/16	23,240,000
2003	Various Purpose	22,565,000	7-1-10/22	20,065,000
2004	Refunding	46,445,000	7-1-09/18	46,320,000
2005	Various Purpose	11,705,000	7-1-12/24	11,705,000
2006	Various Purpose	9,710,000	7-1-13/25	9,710,000
2006	Refunding	26,650,000	7-1-11/14	26,500,000
2007	Various Purpose	15,915,000	7-1-19/27	15,915,000
2008	Various Purpose	15,450,000	7-1-09/28	14,300,000
2009	Various Purpose	61,830,000	7-1-10/29	50,745,000
2010	Various Purpose	30,865,000	7-1-20/30	30,865,000
2011	Various Purpose	29,320,000	7-1-12/31	29,320,000
Total General Obligation Bonds Outstanding				$283,735,000

(h) Excludes $9,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2006. Excludes $4,750,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2004. Excludes $8,500,000 principal amount of the City's General Obligation Bonds, Series 2002, which were refunded by the City's General Obligation Refunding Bonds, Series 2002A. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

The City expects to issue approximately $33,400,000 General Obligation Bonds, Series 2012 and approximately $29,660,000 General Obligation Refunding Bonds, Series 2012 in the second calendar quarter of 2012.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding (i)
1997	Utility Improvement	$ 94,730,000	7-1-12/17	$ 4,000,000
1998	Refunding	32,500,000	7-1-00/13	125,000
2002	Utility Improvement	57,950,000	7-1-09/21	6,000,000
2002	Refunding	129,000,000	7-1-04/17	126,800,000
2002A	Refunding	48,850,000	7-1-08/17	46,590,000
2003	Utility Improvement	50,470,000	7-1-10/22	23,000,000
2004	Refunding	40,345,000	7-1-14/19	40,345,000
2004	Utility Improvement	64,625,000	7-1-19/28	6,125,000
2005	Utility Improvement	91,200,000	7-1-19/29	71,200,000
2006	Utility Improvement	105,400,000	7-1-23/30	87,325,000
2006	Refunding	61,300,000	7-1-09/21	58,075,000
2006	Refunding	127,260,000	7-1-12/28	127,260,000
2007	Utility Improvement	65,550,000	7-1-23/31	65,550,000
2008	Refunding	21,125,000	7-1-09/18	19,300,000
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
2009	WIFA Loans	3,758,810	7-1-10/29	2,878,312
2010	Utility Improvement	50,380,000	7-1-34	50,380,000
2011	Utility Improvement	53,950,000	7-1-35	53,950,000
Total Utility Systems Revenue Bonds Outstanding				$901,678,312

(i) Excludes $35,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2006. Excludes $14,000,000 principal amount of the City's Utility Systems Revenue Bonds, Series 2002, which were refunded by the City's Utility Systems Revenue Refunding Bonds, Series 2004. Debt service requirements for such refunded bonds are provided for by obligations issued by the United States of America that are held in irrevocable trust by U.S. Bank National Association.

The City expects to issue approximately $62,425,000 Utility Systems Revenue Bonds, Series 2012, approximately $32,945,000 Utility Systems Revenue Refunding Bonds, Series 2012 and approximately $76,540,000 Taxable Utility Systems Revenue Refunding Bonds, Series 2012, in the second calendar quarter of 2012.

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

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2002	Street Improvements	$25,800,000	7-1-10/20	$ 1,000,000
2002	Refunding	31,985,000	7-1-04/17	26,455,000
2003	Street Improvements	26,805,000	7-1-10/22	25,800,000
2004	Refunding	17,760,000	7-1-14/18	17,760,000
2004	Street Improvements	9,585,000	7-1-10/23	1,375,000
2005	Refunding	23,800,000	7-1-07/23	23,750,000
2005	Street Improvements	10,225,000	7-1-10/24	10,025,000
2006	Street Improvements	11,675,000	7-1-23/25	11,675,000
2007	Street Improvements	10,675,000	7-1-23/27	10,675,000
Total Street and Highway User Revenue Bonds Outstanding				$128,515,000

(j) Excludes $13,250,000 principal amount of the City’s Street and Highway User Revenue Bonds, Series 2002; and $8,000,000 principal amount of the City’s Street and Highway User Revenue Bonds, Series 2004, all of which were refunded by the City’s Street and Highway User Revenue Refunding Bonds, Series 2005. Excludes $6,750,000 principal amount of the City’s Street and Highway User Revenue Bonds, Series 2002, which were refunded by the City’s Street and Highway User Revenue Refunding Bonds, Series 2004. Excludes $3,000,000 principal amount of the City’s Street and Highway User Revenue Bonds, Series 2002, which were refunded by the City’s Street and Highway User Revenue Refunding Bonds, Series 2002. Debt service requirements for such refunded bonds are provided for by obligations of the United States of America that are held in irrevocable trust by U.S. Bank National Association.

The City expects to issue approximately $38,060,000 Street and Highway User Revenue Refunding Bonds, Series 2012 in the second calendar quarter of 2012.

Excise Tax Obligations to be Outstanding
City of Mesa, Arizona

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
2009	Highway Project Advancement Notes (k)	$ 20,000,000	7/1/2015	$ 20,000,000
2010	Highway Project Advancement Notes (k)	25,000,000	7/1/2016	25,000,000
2011A	Highway Project Advancement Notes (k)	77,835,000	7/1/2017-21	77,835,000
Total Excise Tax Obligations Outstanding (k)				$ 122,835,000
Plus the Series 2012 Bonds (l)				19,220,000
Total Excise Tax Obligations to be Outstanding				$142,055,000

(k) Represents Senior Obligations, secured by a first lien on the City’s unrestricted Excise Taxes.

(l) The Series 2012 Bonds are secured by the Rental Payments, which are comprised of Base Rent and Premises Rent. The Base Rent due under the 2012 Lease is equal to the debt service on the Series 2012 Bonds and is secured by a subordinate lien on the City’s unrestricted Excise Taxes.

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

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

General Municipal Purpose Bonds		Water, Light, Sewer, Open Space, Parks, Streets and Public Safety Bonds	
Total 6% General Obligation Bonding Capacity	$189,856,638	Total 20% General Obligation Bonding Capacity	$632,855,462
Less 6% General Obligation Bonds Outstanding	(5,325,517)	Less 20% General Obligation Bonds Outstanding	(278,409,483)
Net 6% General Obligation Bonding Capacity	$184,531,121	Net 20% General Obligation Bonding Capacity	$354,445,979

(m) General obligation bonding capacity is calculated using the City's fiscal year 2011/12 secondary assessed valuation of $3,164,277,311.

Other Indebtedness
City of Mesa, Arizona

The City has other obligations which are payable from various City funds, including purchase obligations, lease obligations and other contractual commitments. For additional information with respect to such obligations, please refer to Note 5 of the City's Audited Financial Statements For The Year Ended June 30, 2011, contained in APPENDIX D of this Official Statement.

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, 2011" 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 employee defined benefit plan in which the City participates, has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: https://www.azasrs.gov/web/FinancialReports.do. The board for the ASRS has adopted contribution rates for fiscal year 2012 and 2013. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 11.39% (11.13% retirement and .26% long-term disability) of the members' annual covered payroll. The City was required by statute to contribute at the actuarially determined rate of 10.10% (9.24% for retirement and .63% for health insurance premium, and .23% long-term disability) of the members' annual covered payroll. For fiscal year 2012 (starting July 1, 2012), the rate, including retirement and long-term disability, will increase to 10.48% for the City and increase to 11.81% for employees, with additional increases currently scheduled through fiscal year 2018. The increase in the ASRS's unfunded liabilities is expected to result in increased contributions by the City and its employees, however the specific effects cannot be determined at this time. The City's contributions to the ASRS for fiscal years 2011 and 2010 were $13.35 million and $13.13 million, respectively, both of which were equal to the required contributions for the year.

Additionally, recently enacted State legislation also made changes to how the ASRS operates, which includes, effective July 1, 2011, requiring employers to pay an alternative contribution rate for retired ASRS employees that return to work, changing the age at which an employee can retire without penalty based upon years of service, limiting permanent increases in retirement benefits and establishing a Defined Contribution and Retirement Study

Committee (as defined in the legislation) that will review the feasibility and cost to changing the current defined benefit plan to a defined contribution plan.

The contribution split to ASRS effective July 1, 2011 (explained above) is being challenged by the Arizona Education Association, the American Federation of State, County and Municipal Employees, and the American Federation of Teachers. These groups filed a lawsuit on July 14, 2011 on behalf of seven plaintiffs alleging that the shift in contribution levels cannot be applied to employees who are already participating in the System under a theory that it violates the Arizona Constitution and contract law. On February 1, 2012, the Maricopa County Superior Court ruled that the law changing the contribution split that current members of the ASRS make to their pension fund is unconstitutional. It is unknown at this time if the ASRS will appeal the decision. Currently the State legislature is considering House Bill 2264, which would return the ASRS to the previous funding system of a 50-50 split between the State and the members of the ASRS. It is unknown at this time whether House Bill 2264 or similar law will become law.

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, 2011, approximately 1,505 former employees and beneficiaries were eligible for these benefits. Other Post Employment Benefits costs incurred by the City in fiscal year 2011 were $16.8 million for health care costs for retired employees. This cost represents actual claims paid for retirees under the self-insurance program and premiums paid to the vision care provider; net of contributions received from retirees and retirement systems. See Note 5 – Post Employment Benefits on page 63 of the City's audited financial statements for fiscal year 2010/11 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, 2011:

Annual Required Contribution	$ 83,522,342
Interest on Net OPEB Obligation	8,316,126
Adjusted to Annual Required Contribution	(11,345,329)
Annual OPEB Cost	80,493,139
Contributions Made	13,494,020
Increase in Net OPEB Obligation	66,999,119
Net OPEB Obligation - Beginning of Year	185,022,650
Net OPEB Obligation - End of Year	$252,021,769

The City's net OPEB obligation as of June 30, 2011 was $252,021,769. Contributions for fiscal year 2010/11 were $13,494,020.

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

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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SUMMARIES OF THE TRUST AGREEMENT AND LEASE

The following statements are summaries of certain definitions and provisions of the Trust Agreement and Lease. Some of these provisions, together with certain other provisions thereof, have been summarized elsewhere in this Official Statement. All such summaries are qualified in their entirety by reference to the full text of such documents and reference is made to such documents for a full and complete statement of their provisions. All terms not hereinafter defined shall have the meaning set forth in this Official Statement.

DEFINITIONS

"*Acquisition and Construction Fund*" means the Acquisition and Construction Fund established pursuant to the Trust Agreement.

"*Additional Bonds*" means any bonds which may be issued under the Trust Agreement.

"*Authority*" or "Lessor" means the Phoenix-Mesa Gateway Airport Authority, a joint powers airport authority pursuant to Title 28, Chapter 25, Article 8, Arizona Revised Statutes, as enacted and amended from time to time.

"*Base Rent*" means the amount the City will pay the Authority under the Lease for use of the Special Facility together with (i) any and all amounts necessary to cause redemption of the Series 2012 Bonds, (ii) all fees and expenses of the Trustee and the registrar and paying agents under the Trust Agreement, to the extent, if any, that such fees, expenses and payments are not met by the regular annual rental payments for use of the Special Facility, (iii) reserve fund payments due under the Trust Agreement and (iv) any interest on overdue amounts.

"*Board of Directors*" means the Board of Directors of the Authority.

"*Bond Register*" means the register of ownership of the Bonds maintained by the Registrar.

"*Bond Resolution*" means (a) when used with reference to the Series 2012 Bonds, the resolution of the Board of Directors providing for their issuance and the approving of the Lease, the Trust Agreement and related matters; (b) when used with reference to an issue of Additional Bonds, the resolution of the Board of Directors providing for the issuance of the Additional Bonds, to the extent applicable, and the approving of any amendment or supplement to the Lease, any Supplement and related matters; and (c) when used with reference to Bonds when any Bonds are outstanding and are to be refunded, the resolution providing for the issuance of the refunding Bonds, in each case as amended or supplemented from time to time.

"*Bond Retirement Fund*" means the Bond Retirement Fund established pursuant to the Trust Agreement comprised of the Interest Account and the Principal Account.

"*Bond Service Charges*" means, for any period or time, the principal of and interest and any premium due on the Bonds for that period or payable at that time, as the case may be.

"*Bonds*" means the Series 2012 Bonds and any Additional Bonds.

"*Book-Entry Form*" or "*Book-Entry System*" means, as to the Bonds, a form or system, as applicable, under which (i) physical Bond certificates in fully registered form are issued only to a Depository or its nominee as Owner, with the physical Bond certificates "immobilized" in the custody of, or on behalf of, the Depository, and (ii) the ownership of book-entry interests in Bonds and principal of, premium, if any, and interest thereon may be transferred only through a book-entry made by other than the Authority or the Trustee or the Registrar. The records maintained by entities other than the Authority or the Trustee or the Registrar constitute the written record that identifies the owners, and records the transfer, of book-entry interests in those Bonds and principal of, premium, if any, and interest thereon.

"*Business Day*" means any day of the week other than (a) a Saturday or Sunday or a day which shall be in the State a legal holiday, (b) a day on which the Trustee is authorized or obligated by law or executive order to close, or (c) a day on which the New York Stock Exchange or the Depository is closed.

"*City*" or "*Lessee*" means the City of Mesa, Arizona.

"*City Rent*" means Base Rent and the Premises Rent to be made by the City under the Lease which are assigned by the Authority to the Trustee by the Trust Agreement. See also "Rental Payments."

"*Code*" means the Internal Revenue Code of 1986, as amended. References to the Code and Sections thereof include relevant applicable regulations and proposed regulations thereunder and any successor provisions to those Sections, regulations or proposed regulations.

"*Debt Service on the Bonds*" means with respect to the a series of Bonds, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due during such period (except to the extent that such interest is payable from proceeds of the Bonds or other amounts set aside for such purpose at the time such Bonds are issued), and (2) the principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Bonds during such period; such sum to be computed on the assumption that no portion of such Bonds shall cease to be Outstanding during such period except by reason of the application of such scheduled payments. If interest on Bonds is payable pursuant to a variable interest rate formula, the interest rate on such Bonds for periods when the actual interest rate on such Bonds cannot yet be determined shall be assumed to be equal to whichever of the following is the highest:

(A) the average annual interest rate on such Bonds over the last five Fiscal Years or since the date of issuance of such Bonds if less than five years, or

(B) if the terms of such Bonds and Parity Bonds provide for conversion of the interest rate payable on such Bonds and Parity Bonds to a fixed interest rate for the remainder of their term to maturity, an interest rate per annum determined in accordance with the provisions of such Bonds and Parity Bonds as if the interest rate payable thereon were being converted to a fixed interest rate for the remainder of their term to maturity.

Debt Service shall not be based upon the terms of any reimbursement obligation to the issuer of any liquidity or credit facility except to the extent and for the periods during which payments are required to be made pursuant to such reimbursement obligation as a result of the issuer's unreimbursed advances of funds thereunder.

"*Defeasance Obligations*" mean, subject to applicable law

(1) Cash (legal tender of the United States of America);

(2) Direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed to timely payment of principal and interest by the United States of America to which direct obligation the full faith and credit of the United States of America has been pledged ("Government Obligations");

(3) STRIPS;

(4) municipal obligations rated by S&P and Moody's not lower than the rating assigned to direct obligations of the United States of America and meeting the following requirements:

(i) the municipal obligations are not subject to redemption prior to maturity or (ii) the trustee therefor has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or Government Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the Government Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(iv) the cash or Government Obligations serving as security for the municipal Bonds are held by an escrow agent or trustee in trust for owners of the municipal Bonds;

(v) no substitution of the Government Obligations shall be permitted except with another Government Obligation and upon delivery of a new verification and if a forward supply contract exists with respect to such municipal obligations, the Verification does not assume compliance with the forward supply contract; and

(vi) the cash or Government Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent, and

(6) Any combination of the items listed in subparagraphs (1) through (4) above.

"*Depository*" means, as to the Bonds, The Depository Trust Company (a limited purpose trust company), New York, New York until a successor Depository shall have become such pursuant to the applicable provisions of the Trust Agreement and, thereafter, Depository shall mean the successor Depository. Any Depository shall be a securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interests in Bonds or principal of, premium, if any, and interest thereon, and to effect transfers of Bonds, in Book-Entry Form.

"*Deed*" the Quitclaim Deed from the United States Government to the Authority recorded April 30, 1998, conveying title to certain property located at the Phoenix-Mesa Gateway Airport.

"*Determination of Taxability*" means a Final Determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, or an opinion of Bond Counsel to the effect that the interest payable on any Series 2012 Bond is or will become includable in the gross income of the owner thereof for federal income tax purposes (other than an owner who is a "substantial user" or "related person" within the meaning of Section 147(a) of the Code).

"*Eligible Investments*" means any of the following, subject to applicable law:

1. Direct general obligations of, or obligations the timely payment of principal and interest on which are fully and unconditionally guaranteed by, the United States of America (including, without limitation, the interest portion of obligations issued by the Resolution Funding Corporation in book entry form and stripped by request to the Federal Reserve Bank of New York), including Government Bonds which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Bonds, provided any stripped Government Bonds have been stripped by the applicable U.S. Governmental Agency ("Government Bonds").

2. STRIPS.

3. Advance-refunded municipal obligations.

4. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): U.S. Export-Import Bank (Eximbank) - direct obligations or fully guaranteed certificates of beneficial ownership; Farmers Home Administration (FmHA) - certificates of beneficial ownership; Federal Financing Bank; Federal Housing Administration Debentures (FHA); General Services Administration - participation certificates; Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA -guaranteed mortgage-backed bonds and GNMA - guaranteed pass-through obligations; U.S. Maritime Administration - guaranteed Title XI financing; U.S. Department of Housing and Urban Development (HUD) - project notes, local authority bonds, new communities debentures U.S. Government guaranteed debentures, U.S. Public Housing notes and bonds - U. S. Government guaranteed public housing notes and bonds.

5. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): Federal Home Loan Bank System - senior debt obligations; Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - participation certificates and senior debt obligations; Federal

National Mortgage Association (FNMA or "Fannie Mae") - mortgage-backed securities and senior debt obligations; Student Loan Marketing Association (SLMA or Sallie Mae) - senior debt obligations; Resolution Funding Corp. (REFCORP) obligations; and Farm Credit System -consolidated systemwide bonds and notes.

6. Money market funds registered under the Federal Investment Company Act of 1940, or whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aal or Aa2 including, without limitation, those of which an affiliate of the Trustee acts as a manager or an investment advisor;

7. Certificates of deposit (i) secured at all times by collateral described in (1), (2), (3) or (4) above, (ii) issued by commercial banks, savings and loan associations or mutual savings banks and (iii) the collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral;

8. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Authority ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.

9. investment agreements, including guaranteed investment contracts, which meet the following criteria:

(i) the investment agreement must be collateralized by the transfer of qualifying securities from a dealer bank or securities firm to the Trustee;

(ii) the investment agreement must be between the Trustee and a provider which is rated "A" or better by S&P and Moody's;

(iii) the written investment agreement must include the following: (A) securities which are acceptable for collateral are Government Bonds, or Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC); (B) the collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral provided to it by the City) before/simultaneous with payment (perfection by possession of certificated securities); (C) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to at least 103% of the amount invested by the Trustee under the investment agreement plus accrued interest and if the value of securities held as collateral slips below 103% of the required value, then additional cash and/or acceptable securities must be transferred, provided however, if the securities used as collateral are FNMA or FHLMC then the value of collateral must equal at least 104%; and

(iv) a legal opinion must be delivered to the Trustee that the investment agreement meets guidelines under state law for legal investment of public funds;

10. Commercial paper rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P.

11. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

12. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of Prime-1 or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

13. repurchase agreements which meet the following criteria:

(i) the repurchase agreement (the "repo") must provide for the transfer of securities from a dealer bank or securities firm to the Trustee, and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date;

(ii) repo must be between the Trustee and a dealer bank or securities firm which is either a primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by S&P and Moody’s, or a bank rated "A" or above by S&P and Moody’s;

(iii) the written repo contract must include the following: (A) securities which are acceptable for transfer are Government Bonds, or Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC); (B) the collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities); (C) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to at least 103% of the amount of cash transferred by the Trustee to the counter-party under the repo plus accrued interest and if the value of securities held as collateral slips below 103% of the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred, provided however, if the securities used as collateral are FNMA or FHLMC then the value of collateral must equal at least 104%; and

(iv) legal opinion which must be delivered to the Trustee that the repo meets guidelines under state law for legal investment of public funds;

14. any other investment that is permitted under applicable Arizona law.

Notwithstanding the foregoing, moneys derived from the sale of the Bonds shall be invested only in obligations described in (1), (2), (4) or (7) (other than certificates of deposit with a savings and loan association or mutual savings bank as described in (7)) or in (6), (9) or (14) (where such investment described in (6), (9) or (14) consists solely of, or are secured by, obligations described in (1), (2), (4) or (7) (other than certificates of deposit with a savings and loan association or mutual savings bank as described in (7))) or in (13).

If any security or Eligible Investment for which a rating level is required is on "credit watch," "negative outlook" or similar status indicating a possible reduction in rating, it shall be treated as not having the rating required.

"*Event of Bankruptcy*" means the filing of a petition in bankruptcy by or against the specified Person under the United States Bankruptcy Code.

"*Event of Default*" means an event of default as set forth in the Trust Agreement.

"*Excise Taxes*" means all unrestricted excise, transaction, franchise, privilege and business taxes, state shared sales and income taxes, state shared vehicle license taxes, fees for licenses and permits, fines, forfeitures and state revenue sharing that are levied by and paid to the City or contributed, allocated or paid to the City and not earmarked by the contributor or the City for a contrary or inconsistent purpose. Excise Taxes shall not include excise taxes levied and paid to the City under (a) the 0.25% transaction privilege (sales) and use tax approved by the voters of the City on May 19, 1998 the use of which is restricted to health, safety and other quality of life uses (b) the 0.30% transaction privilege (sales) and use tax approved by the voters of the City on May 16, 2006 the use of which is restricted to street projects in the City, (c) any transient lodging tax (formerly known as transient occupancy tax) or (d) any other similar tax restricted as to its use.

"*Final Determination*" means, with respect to a private letter ruling or a technical advice memorandum or determination of the Internal Revenue Service, written notice thereof in a proceeding in which the Authority and the City had an opportunity to participate and otherwise means written notice of a determination from which no further right of appeal exists or from which no appeal is timely filed with any court of competent jurisdiction in the United States in a proceeding to which the Authority and the City were a party or in which the Authority and the City had the opportunity to participate.

"*Fiscal Year*" means the period commencing each July 1 and ending June 30 of the succeeding calendar year, unless otherwise determined and designated by the Authority.

"*Interest Account*" means the Interest Account established pursuant to the Trust Agreement.

"*Interest Payment Date*" or "*Interest Payment Dates*" means, as to the Series 2012 Bonds, the date or dates set forth as such in the form of bond attached hereto as *Exhibit A*, and as to Additional Bonds, each date or dates designated as an Interest Payment Date or Dates in the form of bond for which provision is made in the applicable Supplement or Bond Resolution.

"*Lease*" means the Property and Special Facility Lease Agreement dated as of February 1, 2012, by and between the Authority, as lessor and the City, as lessee, as amended or supplemented from time to time.

"*Lease Revenues*" means (a) City Rent (b) all other moneys received or to be received by the Authority or the Trustee in respect of the Lease and any amendment or supplement to the Lease, including without limitation, moneys and investments in the Bond Retirement Fund, and (d) all income and profit from the investment of the foregoing moneys.

"*Moody's*" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such Authority shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

"*Original Purchaser*" means, as to the Series 2012 Bonds, Piper Jaffray & Co. and Stifel Nicolaus & Company, Incorporated, dba Stone & Youngberg, a division of Stifel Nicolaus and, as to Additional Bonds, the Person or Persons identified as the purchaser or purchasers in the applicable purchase agreement or purchase proposal.

"*Outstanding Bonds*," "*Bonds outstanding*" or "*Outstanding*" as applied to the Bonds, mean, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Trust Agreement, except:

(a) Bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date;

(b) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or any Paying Agents on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Owners of that notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Trust Agreement; and

(d) Bonds in lieu of which others have been authenticated under the Trust Agreement.

"*Owner*" or "*Bond Owner*" or "*Owner of a Bond*" means the Person in whose name a Bond is registered on the Bond Register.

"Parity Senior Lien Obligations" means, collectively any other notes, bonds or obligations payable from a senior lien pledge of, and secured by a senior lien on, the Excise Taxes, equal in all respects and priority to the senior lien pledge of and senior lien on Excise Taxes securing the Senior Lien Bonds.

"Parity Subordinate Lien Bonds" means other obligations issued by the Lessee, on a parity as to the subordinate pledge of Excise Taxes with the pledge of such taxes securing the Base Rent payments due under the Lease.

"*Paying Agent*" means, as to the Series 2012 Bonds, the Trustee, until a successor Paying Agent shall have become such pursuant to applicable provisions of the Trust Agreement and, as to any series of Additional Bonds, the bank, trust company or other person designated as a Paying Agent by or in accordance with the Trust Agreement.

"*Person*" or words importing persons means firms, associations, partnerships (including without limitation, general and limited partnerships), joint ventures, societies, estates, trusts, authorities, public or governmental bodies, other legal entities and natural persons.

"*Premises Rent*" means the amount paid by the City to the Authority under the Lease for use of the Project Site together with the reasonable expenses of the Authority in administering the Series 2012 Bonds.

"*Principal Account*" means the Principal Account established pursuant to the Trust Agreement.

"*Principal Payment Date*" means, as to the Series 2012 Bonds, July 1 in the years specified in the Trust Agreement for the stated amount of principal to be retired at maturity, or any other date on which the principal of the Series 2012 Bonds is payable as a result of redemption, optional or mandatory and as to Additional Bonds such date or dates in the years designated as Principal Payment Dates in the form of bond for which provision is made in the applicable Supplement.

"*Project Site*" means the necessary property, rights-of-way, easements and other property rights, if and to the extent necessary, to construct, operate, use and maintain the Special Facility and the related appurtenances thereto, including but not limited to, access to runways and taxiway connectors. The Project Site shall also include a parking apron approximately 1.5 times the size of the Special Facility's maintenance hangar space immediately adjacent to the Special Facility.

"*Qualified Surety Issuer*" means with respect to the Series 2012 Bonds and any Additional Bonds, the issuer of a Qualified Surety Bond, if any.

"*Qualified Surety Bond*" means a letter of credit or line of credit, insurance policy or surety bond issued by a Qualified Surety Issuer meeting the requirements of the Trust Agreement.

"*Registrar*" means, as to the Series 2012 Bonds, the Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of the Trust Agreement and as to any series of Additional Bonds, the bank, trust company or other Person designated as such by or pursuant to the applicable Bond Resolution or Supplement.

"*Rental Payments*" means the Base Rent and the Premises Rent to be made by the City under the Lease which are assigned by the Authority to the Trustee by the Trust Agreement. See also "City Rent."

"*Reserve Fund*" means the Reserve Fund established pursuant to the Trust Agreement.

"*Reserve Requirement*" means, as to all of the Series 2012 Bonds, $1,322,000 and upon the issuance of any Additional Bonds, the Reserve Requirement shall increase to the least of an amount equal to the Debt Service on the Bonds for the then Outstanding Bonds, 125% of the average Debt Service on the Bonds for the then Outstanding Bonds, and ten percent (10%) of the stated principal amount of the then Outstanding Bonds, provided however, that the incremental increase of the Reserve Requirement with respect to an issue of Additional Bonds does not exceed 10% of the stated principal amount of such issue. The Reserve Requirement may be satisfied by cash, a Qualified Surety Bond, or a combination of the two.

"*S&P*" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such Authority shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

"*Senior Lien Bonds*" means the City of Mesa, Arizona Highway Project Advancement Notes, Series 2009 executed and delivered in the aggregate principal amount of $20,000,000, the City of Mesa, Arizona Highway Project Advancement Notes, Series 2010 executed and delivered in the aggregate principal amount of $25,000,000, the City of Mesa, Arizona Highway Project Advancement Notes, Series 2012 executed and delivered in the aggregate principal amount of $77,835,000 and any Parity Senior Lien Bonds.

"*Senior Lien Debt Service* " means with respect to the Outstanding Senior Lien Bonds and Parity Senior Lien Bonds, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due during such period (except to the extent that such interest is payable from proceeds of the Senior Lien Bonds and Parity Senior Lien Bonds or other amounts set aside for such purpose at the time such Bonds and Parity Senior Lien Bonds are incurred), and (2) the principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Senior Lien Bonds and Parity Senior Lien Bonds during such period; such sum to be computed on the assumption that no portion of such Senior Lien Bonds and Parity Senior Lien Bonds shall cease to be Outstanding during such period except by reason of the application of such scheduled payments. If interest on Senior Lien Bonds and Parity Senior Lien Bonds is payable pursuant to a variable interest rate formula, the interest rate on such Senior Lien Bonds and Parity Senior Lien Bonds for periods when the actual interest rate on such Bonds and Parity Senior Lien Bonds cannot yet be determined shall be assumed to be equal to whichever of the following is the highest:

(A) the average annual interest rate on such Senior Lien Bonds and Parity Senior Lien Bonds over the last five Fiscal Years or since the date of issuance of such Senior Lien Bonds and Parity Senior Lien Bonds if less than five years, or

(B) if the terms of such Senior Lien Bonds and Parity Senior Lien Bonds provide for conversion of the interest rate payable on such Senior Lien Bonds and Parity Senior Lien Bonds to a fixed interest rate for the remainder of their term to maturity, an interest rate per annum determined in accordance with the provisions of such Senior Lien Bonds and Parity Senior Lien Bonds as if the interest rate payable thereon were being converted to a fixed interest rate for the remainder of their term to maturity.

Senior Lien Debt Service shall not be based upon the terms of any reimbursement obligation to the issuer of any liquidity or credit facility except to the extent and for the periods during which payments are required to be made pursuant to such reimbursement obligation as a result of the issuer's unreimbursed advances of funds thereunder.

"*Series 2012 Bonds*" means the Phoenix-Mesa Gateway Airport Authority Special Facility Revenue Bonds (Mesa Project), Series 2012, issued pursuant to the Trust Agreement.

"*Special Facility*" means the office, warehouse and hangar suitable for a maintenance, repair and overhaul facility for fixed wing or rotor aircraft or aircraft parts, aviation parts fabrication, modification and installation and related aircraft maintenance, repair and overhaul services which shall be comprised of a building of approximately 181,260 square feet. The Special Facility shall be connected to the airport's fire suppression system, together with connections to all other public utilities, roadways, private utilities and taxiways.

"*State*" means the State of Arizona.

"*Subordinate Lien Debt Service*" means with respect to the Outstanding Subordinate Lien Bonds and Parity Subordinate Lien Bonds, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due during such period (except to the extent that such interest is payable from proceeds of the Subordinate Lien Bonds and Parity Subordinate Lien Bonds or other amounts set aside for such purpose at the time such Subordinate Lien Bonds and Parity Subordinate Lien Bonds are incurred), and (2) the principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Subordinate Lien Bonds and Parity Subordinate Lien Bonds during such period; such sum to be computed on the assumption that no portion of such Subordinate Lien Bonds and Parity Subordinate Lien Bonds shall cease to be Outstanding during such period except by reason of the application of such scheduled payments. If interest on Subordinate Lien Bonds and Parity Subordinate Lien Bonds is payable pursuant to a variable interest rate formula, the interest rate on such Subordinate Lien Bonds and Parity Subordinate Lien Bonds for periods when the actual interest rate on such Subordinate Lien Bonds and Parity Subordinate Lien Bonds cannot yet be determined shall be assumed to be equal to whichever of the following is the highest:

(A) the average annual interest rate on such Subordinate Lien Bonds and Parity Subordinate Lien Bonds over the last five Fiscal Years or since the date of issuance of such Subordinate Lien Bonds and Parity Subordinate Lien Bonds if less than five years, or

(B) if the terms of such Subordinate Lien Bonds and Parity Subordinate Lien Bonds provide for conversion of the interest rate payable on such Subordinate Lien Bonds and Parity Subordinate Lien Bonds to a fixed interest rate for the remainder of their term to maturity, an interest rate per annum determined in accordance with the provisions of such Subordinate Lien Bonds and Parity Subordinate Lien Bonds as if the interest rate payable thereon were being converted to a fixed interest rate for the remainder of their term to maturity.

Subordinate Lien Debt Service shall not be based upon the terms of any reimbursement obligation to the issuer of any liquidity or credit facility except to the extent and for the periods during which payments are required to be made pursuant to such reimbursement obligation as a result of the issuer's unreimbursed advances of funds thereunder.

"*Supplement*" means any trust agreement supplemental to the Trust Agreement entered into between the Authority and the Trustee in accordance with Article IX hereof.

"*Trust Agreement*" means the Trust Agreement, dated as of February 1, 2012, between the Authority and the Trustee and to which the City has joined for limited purposes, as amended or supplemented from time to time.

"*Trustee*" means the Person named as the "Trustee" in the Trust Agreement until a successor Trustee shall have become such pursuant to the applicable provisions of the Trust Agreement, and thereafter "Trustee" shall mean such successor Trustee.

SUMMARY OF THE TRUST AGREEMENT

The Granting Clause

The Authority absolutely assigns to Trustee, all its right, title and interest in the Lease. The Authority, however, remains liable to observe and perform all of its conditions and covenants therein; all of rents, issues and profits payable to or received by the Authority under the Lease described herein, including without limitation, all of the Lease Revenues, which include without limitation the Base Rent; and all property which is, by the express provisions thereof, to be subjected to the lien thereof and any additional property that may, from time to time, be subjected to the lien thereof.

IN TRUST, NEVERTHELESS

(a) for the equal and proportionate benefit, of present and future Owners of the Bonds,
(b) for enforcement of payment of the Bonds, and,
(c) to secure performance and observance of and compliance with the covenants of the Trust Agreement, in each case, without preference, priority or distinction, as to lien or otherwise, of any one Bond over any other; but if the Bonds shall be well and truly paid, or discharged and all covenants of the Authority under the Trust Agreement have been performed and all moneys due the Trustee, Registrar and Paying Agent have been paid then, the Trust Agreement shall cease, determine and be void; otherwise, to remain in full force and effect.

It is declared that all Bonds issued under the Trust Agreement and secured thereby are to be issued, authenticated and delivered, and that all revenues pledged and assigned thereby are to be dealt with and disposed of as provided in the Trust Agreement.

Additional Bonds

Issuance and Delivery of Additional Bonds.

(a) Additional Bonds shall be on a parity with the Series 2012 Bonds and any Additional Bonds. Nothing prevents payment of Bond Service Charges on any Additional Bonds from (i) being otherwise secured and protected from sources or by property or instruments not applicable to the Series 2012 Bonds or (ii) not being secured or protected from sources or by property or instruments applicable to the Series 2012 Bonds or one or more series of Additional Bonds.

(b) The issuance of such Additional Bonds is subject to the following specific conditions:

(i) such Additional Bonds shall have been authorized to finance or refinance the cost of acquiring, constructing, reconstructing or improving buildings, equipment, and other real and personal properties as a maintenance, repair and operation facility or other airport related activities by and for leasing to the City or its agencies or instrumentalities provided that such finance or refinancing is related to the Special Facility, or for refinancing or advance refunding of Bonds.

(ii) the Authority shall be in full compliance with the Lease and the Trust Agreement.

(iii) the supplement to the Trust Agreement authorizing issuance of such Additional Bonds shall require that their proceeds shall be applied solely for one or more of the purposes set forth in (b)(i) above plus costs and expenses for the issuance of such Additional Bonds, premium on any insurance policy or any Qualified Surety Bond or funding any increase in the Reserve Fund due to the issuance of the Additional Bonds and interest on the Additional Bonds.

(iv) the Reserve Fund be increased as necessary to equal the Reserve Requirement after issuance of the Additional Bonds.

(v) evidence of compliance with the Lease regarding Parity Subordinate Lien Obligations.

(vi) the supplement to the Lease providing for Base Rent payment in an amount sufficient to pay the Additional Bonds.

(vii) the purpose of the Additional Bonds complies with Title 28, Chapter 25, Article 8 of the Arizona Revised Statutes, as amended.

(viii) the purpose of the Additional Bonds must be in compliance with federal tax law requirements to operate a type of facility that constitutes an airport facility.

(ix) the obligation to make payments on the Additional Bonds from Lease Revenues shall not be subject to acceleration for any reason and such payments shall not be made immediately due and payable prior to their scheduled due date.

Source of Payment of the Bonds

Source of Payment of Bonds. The Bonds shall be the Authority's special obligations and the Bond Service Charges shall be payable equally and ratably solely from Lease Revenues. Payment of Bond Service Charges on any series of Additional Bonds may be otherwise secured and protected from sources or by property or instruments not applicable to the Series 2012 Bonds and any one or more series of Additional Bonds, or not secured and protected from sources or by property or instruments applicable to the Series 2012 Bonds or one or more series of Additional Bonds. The Bonds and the Trust Agreement do not constitute a debt or pledge of the faith and credit of the Authority or the taxing power of the City (other than then excise taxing power of the City pursuant to the Lease) or of the State or of any political subdivision, municipality or other agency thereof.

Provisions as to Funds and Payments

Establishment of Funds**.** The following funds are established: (i) Bond Retirement Fund, comprised of the Interest Account and the Principal Account; (ii) Reserve Fund; and (iii) Acquisition and Construction Fund. Additional funds and accounts may be created in any Supplement.

Application of Series 2012 Bond Proceeds. The Authority shall deposit with the Trustee all of the proceeds of the Series 2012 Bonds and net of underwriters' compensation and upon receipt of such proceeds, the Trustee shall:

(a) Deposit to the credit of the Interest Account, a portion of the proceeds of the Series 2012 Bonds to be used to pay a portion of the interest on the Series 2012 Bonds on the July 1, 2012, January 1, 2013 and July 1, 2013 Interest Payment Dates; and

(b) Deposit to the Reserve Fund the amount necessary to fund the Reserve Requirement.

(c) Deposit to the Acquisition and Construction Fund the balance of the proceeds of the Series 2012 Bonds.

Payment of Base Rent to Trustee for Payment of Series 2012 Bonds**.** The City shall wire the Base Rent due under the Lease to the Trustee. The Trustee shall credit such moneys to the Bond Retirement Fund and the Reserve Fund.

Flow of Funds**.** The Trustee shall transfer to the Bond Retirement Fund and the Reserve Fund the following amounts at the time and in the manner provided, to-wit:

(i) Interest Account: On each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount equal to the amount of the interest becoming due and payable on the outstanding Bonds on the next Interest Payment Date. Money in the Interest Account shall be used by the Trustee solely to pay interest on the Bonds when due.

(ii) Principal Account. On each Principal Payment Date, the Trustee shall deposit in the Principal Account an amount equal to the amount of the principal becoming due and payable on the Outstanding Bonds on the next Principal Payment Date, and each deposit shall be made so that adequate moneys for the payment of principal will be available in such account on each date that principal payments are to be made. Money in the Principal Account shall be used and withdrawn by the Trustee solely to pay principal on the Bonds.

(iii) Reserve Fund. On January 1 and July 1, the Trustee shall deposit in the Reserve Fund any moneys received by the Trustee for deposit therein. Money in the Reserve Fund shall be used and withdrawn by the Trustee pursuant to the Trust Agreement.

Reserve Fund.

(a) All Reserve Fund moneys shall be held in Trust for the benefit of the Owners of Bonds for which the Reserve Fund has been funded. The Reserve Requirement for the Series 2012 Bonds shall not exceed $1,322,000. Reserve Fund moneys shall be a reserve for prompt payment when due of all Bond Service Charges.

If on January 1 or July 1 the moneys available in the Bond Retirement Fund do not at least equal the amount of the Bond Service Charges then due and payable with respect to Outstanding Bonds, the Trustee shall apply the moneys available in the Reserve Fund to remedy such deficiencies by transferring the amount necessary to the Bond Retirement Fund for such Bonds. In the case of Qualified Surety Obligation, the Trustee shall deliver a demand for payment to the issuer of the Qualified Surety Obligation at least ten (10) Business Days before the funds are required. Upon receipt of any delinquent City Rent payments corresponding to the moneys advanced from the Reserve Fund, such rental payment shall be deposited in the Reserve Fund pursuant to the Trust Agreement. Transfers from the Reserve Fund to the Bonds Retirement Fund shall not result in a credit or reduction of the City's obligation to pay the Base Rent.

(b) If amounts in the Reserve Fund and the Bond Retirement Fund (excluding amounts required for payment of the Bond Service Charges with respect to the Bonds not presented for payment) are sufficient to pay all Outstanding Bonds, including all Bond Service Charges, the Trustee shall transfer all amounts then in the Reserve Fund to the Bond Retirement Fund and shall thereafter pay the Bonds and pay all remaining Bond Service Charges.

(c) The Reserve Fund shall be valued at the following time: (i) as of the initial issuance of Bonds; (ii) each December 1 and June 1; and (iii) immediately after a Reserve Fund draw down occurs which transfers moneys or investments to the Bond Retirement Fund. The Trustee shall promptly notify the Authority and the City of any Reserve Requirement deficiency and the City agrees to thereafter pay as additional Base Rent such deficiency within the next twenty-four months, except as otherwise provided in the Qualified Surety Bond.

(d) The City may present a Qualified Surety Bond in exchange for the moneys and investments then on deposit in the Reserve Fund. The City agrees to comply with the terms and provisions pertaining to any Qualified Surety Bond.

(e) Each Supplement shall require that a Qualified Surety Obligation or a cash deposit an amount which will cause the Reserve Fund to equal the Reserve Requirement immediately after the Additional Bonds are issued. No Reserve Fund deposit need be made if the amount therein at least equals the Reserve Requirement.

(f) If on any valuation date (as set forth in the Trust Agreement) the Reserve Fund value exceeds the Reserve Requirement and no Trust Agreement default then exists, the Trustee shall transfer the excess to the Revenue Fund. All money in the Reserve Fund shall be used solely to pay the Series 2012 Bonds and any Additional Bonds, if no other money is available therefore, or for retirement of all Series 2012 Bonds and any Additional Bonds then outstanding.

Investment of Funds**.** At the Authority's direction, all the money in any funds shall be invested and reinvested in Eligible Investments. Rental Payments received from the City shall be invested only in U.S. treasury obligations or cash. Eligible investment attributable to moneys in the Reserve Fund shall not have maturities extending beyond five (5) years.

Moneys to Be Held in Trust**.** All moneys paid to Trustee shall be held by the Trustee in trust.

Pledge; Protection of Lien; Parity Bonds and Tax Covenants

Pledge**.** The Series 2012 Bonds are payable from a pledge of, and secured by a lien on, the Lease Revenues as many be necessary for its prompt and punctual payment on a parity with the pledge of the Lease Revenues to the payments due on any Additional Bonds. None of the Bonds shall be entitled to priority or distinction one over the other in the application of Lease Revenues hereby pledged. All of the Bonds are co-equal as to the pledge of and lien on the Lease Revenues pledged for the payment therefor and share ratably, without preference, priority or distinction, as to the source or method of payment from Lease Revenues or security therefor.

Protection of Lien**.** Trustee and Authority agree not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien of the Trust Agreement and that no obligations the payment of which is secured by a superior or equal claim on or interest in property or revenues pledged will be issued except in lieu of, or upon transfer of registration or exchange of, any Bond as provided in the Trust Agreement except for Additional Bonds.

Tax Covenants. Authority covenants it will take any action necessary to prevent the interest income on the Series 2012 Bonds from becoming subject to inclusion in gross income for federal income tax purposes.

In the event the Authority is required to rebate its earnings and profits from the investment of the Series 2012 Bonds, the Trustee shall establish a separate Arbitrage Rebate Fund. The Authority agrees to be the ultimate obligor for the payment of arbitrage rebate should the amounts held in the Arbitrage Rebate Fund be insufficient to make all payments required.

The Authority covenants to comply with all of the specific tax covenants regarding exempt facility airport bonds set forth in the Trust Agreement.

The Trustee, Registrar and Paying Agent

Trustee's Acceptance and Responsibilities.

(a) Trustee accepts the trusts imposed upon it, and shall observe and perform those trusts, but only upon the terms and conditions set forth in the Trust Agreement.

(b) Prior to the occurrence of a default or an "Event of Default" of which Trustee has been notified, or of which Trustee is deemed to have notice, and after the cure or waiver of all default or Events of Default:

(i) Trustee undertakes to perform only those duties and obligations which are set forth specifically and no duties or obligations shall be implied to Trustee;

(ii) in the absence of bad faith on its part, Trustee may rely conclusively, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to Trustee and conforming to the requirements of the Trust Agreement; but in case of any such certificates or opinion which by any provision of the Trust Agreement are required specifically to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Trust Agreement on their face.

(c) If an Event of Default has occurred and its continuing (of which the Trustee has been notified, or is deemed to have notice), Trustee shall exercise those rights and powers vested in the Trust Agreement and shall use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances in the conduct of their corporate trust business.

(d) No provision of the Trust Agreement shall be construed to relieve the Trustee from liability for its own gross negligent action, its own gross negligent failure to act, or its own willful misconduct, except that,

(i) Nothing shall be construed as to affect the limitation of the duties and obligations of the Trustee under the Trust Agreement or the right of the Trustee to rely on the truth of the statements and the correctness of opinions under the Trust Agreement;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by one of its officers, unless Trustee was negligent in ascertaining the pertinent facts;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in principal amount of a series of the Bonds then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; and

(iv) no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability (including, without limitation, any and all environmental liability) in the performance of any of its duties, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

Fees, Charges and Expenses of Trustee, Registrar and Paying Agents.

(a) The Trustee, the Registrar and any Paying Agents shall be entitled to payment or reimbursement for reasonable fees for its services and for all out of pocket expenses, advances, counsel fees and other expenses reasonably and necessarily paid or incurred in connection with such services.

(b) The Trustee, the Registrar and any Paying Agent shall not be entitled to compensation or reimbursement for services or expenses occasioned by their gross negligence or willful misconduct.

Successor Trustee. Any successor Trustee shall (i) be a trust company or a bank having the powers of a trust company, (ii) be in good standing within the State, (iii) be duly authorized to exercise trust powers, and (iv) have a reported capital and surplus of not less than $50,000,000.

Resignation by the Trustee. The Trustee may resign at any time by giving written notice thereof by mail to the Owners as their names and addresses appear on the register at the close of business fifteen (15) days prior to the mailing. The resignation shall take effect upon the appointment of a successor Trustee.

Removal of Trustee.

(a) The Trustee may be removed at any time by the Authority.

(b) The Trustee may be removed at any time by an instrument or document or concurrent instruments or documents in writing delivered to the Trustee, with copies thereof mailed to the Authority, the Registrar and any Paying Agents and signed by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding.

(c) The Trustee may be removed for acting in violation of any provision of the Trust Agreement upon the application of the Authority or the Owners of at least 20% in aggregate principal amount of the Bonds then Outstanding.

Default Provisions and Remedies of Trustee and Owners

Defaults; Events of Default.

Any of the following constitute an Event of Default:

(i) Payment of any interest shall not be made when due;

(ii) Payment of the principal of or any premium shall not be made when due, whether at stated maturity, by redemption, or otherwise;

(iii) Failure by the Authority to observe or perform any other covenant, agreement, or obligation which failure shall have continued for 30 days after written notice of such failure.

(iv) The occurrence and continuance of any default as defined in the Lease;

(v) The occurrence of an Event of Bankruptcy as to the Authority or the City.

Notice of Default. If an Event of Default shall occur, the Trustee shall give written notice of the Event of Default, by registered or certified mail, to the Authority, the Registrar, any Paying Agent, and the Original Purchaser of each series of Bonds, within five (5) Business Days after the Trustee has notice of the Event of Default. If an Event of Default occurs of which the Trustee has notice pursuant to the Trust Agreement, the Trustee shall give written notice thereof, promptly to the Owners of all Bonds then outstanding as shown by the register at the close of business fifteen (15) days prior to the mailing of the principal of or any premium or interest on any Bond or the occurrence of an Event of Bankruptcy as to the Authority. The Trustee may withhold such notice if its board of directors, the executive committee or a trust committee in good faith determines that withholding such notice is in the Owners' interest.

Remedies; Rights of Owners**.**

(a) Upon an Event of Default, the Trustee may pursue any available remedy to enforce the payment of Bond Service Charges or the observance and performance of any other covenant, agreement or obligation under the Trust Agreement, the Lease or any other instrument providing security, directly or indirectly, for the Bonds.

(b) Upon an Event of Default, if requested to do so by the Owners of at least 25% in aggregate principal amount of each series of Bonds outstanding, the Trustee shall, if all preconditions are met, exercise any rights and powers conferred in the Trust Agreement.

(c) The Trustee is empowered to enforce each remedy granted to Authority under the Lease.

Application of Moneys.

After payment of any amounts incurred to collect moneys under the Trust Agreement or the Lease, all moneys received by the Trustee shall be deposited in the Bond Retirement Fund and shall be applied as follows:

First — To pay all installments of interest then due in the order of the interest due dates beginning with the earliest date and, if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, without discrimination or privilege, except as to any difference in the respective rates of interest specified in the Bonds; and

Second — To pay unpaid principal then due (other than Bonds previously called for redemption for the payment of which moneys are held) in the order of their due dates, beginning with the earliest, and if the amount available is not sufficient to pay in full all Bonds due, then to the payment thereof ratably, without discrimination.

Third — To pay amounts required to restore the Reserve Fund to the Reserve Requirement.

Rights and Remedies of Owners.

(a) An Owner shall not have any right to institute any suit, action or proceeding for the enforcement of the Trust Agreement, unless:

(i) there has occurred and is continuing an Event of Default of which the Trustee has been notified.

(ii) the Owners of at least twenty-five percent (25%) in aggregate principal amount of a series of Bonds then outstanding shall have requested that the Trustee (and afforded the Trustee reasonable opportunity to proceed) exercise the powers granted to it or to bring an action in its own name, and shall have offered the Trustee indemnity; and

(iii) the Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted to it or to institute the suit.

(b) No one or more Owners shall have any right to affect, in any manner or benefit of the Trust Agreement, or to enforce, except in the manner provided in the Trust Agreement.

No Remedy Effecting Project Site or Special Facility. Neither the Trustee nor the Owners shall have any right to foreclose upon the interest of the City or the Authority in and to the Project Site or the Special Facility, terminate the Lease or in any way interfere with the continued use and enjoyment of the Project Site and the Special Facility by the City.

Supplements

Supplement Without Owner's Consent. Without consent of any Owner, the Authority and the Trustee may enter into Supplement:

(i) to cure any ambiguity, inconsistency, formal defect or omission therein;
(ii) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that lawfully may be so granted or conferred;
(iii) to assign additional revenues thereunder;
(iv) to accept additional security and instruments and documents of further assurance with respect to the Bonds;
(v) to add other covenants, agreements and obligations to be observed for the Owners' protection, or to surrender or limit any right, power or authority reserved to the Authority therein, including, without limitation, the limitation of rights of redemption so that in certain instances Bonds of different series will be redeemed in some prescribed relationship to one another for the protection of the Owners of a particular series of Bonds.
(vi) to evidence any succession to the Authority;
(vii) to make necessary or advisable amendments or additions in connection with the issuance of Additional Bonds or the issuance of Parity Bonds that do not materially adversely affect the Owners' interests as evidenced by the opinion of counsel delivered to it under the Trust Agreement;
(viii) to permit the use of a Book-Entry System of bond ownership;
(ix) to permit the Trustee to comply with any obligations imposed upon it by law;
(x) to specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar and any Paying Agents;
(xi) to achieve compliance of the Trust Agreement with any applicable federal securities or tax law;
(xii) to permit the use of a Qualified Surety Bond to satisfy all or a portion of the Reserve Fund Requirement; and
(xiii) to permit any other amendment which, in the opinion of nationally recognized bond counsel, is not to the prejudice of the Trustee or the Owners.

Supplement Requiring Owners' Consent.

(a) Except for Supplement not requiring consents, the Owners of not less than a majority in aggregate principal amount of each series of Bonds, the Authority and the Trustee may execute and deliver Supplement. Nothing, however, shall permit:

(i) without the consent of the Owner thereof, (A) extension of the maturity date of any Bond, (B) reduction in the principal amount or the rate of interest or premium thereon, or (C) reduction in the amount or extension of the time of payment of any mandatory redemption requirement, or

(ii) without the consent of the Owners of all Bonds then outstanding, (A) the creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds or (B) a reduction in the aggregate principal amount of the Bonds required for consent to a Supplement.

Opinion of Counsel. The Trustee shall be fully protected in relying upon the opinion of any counsel (who may be the Authority's counsel) that: (i) any proposed Supplement complies with the provisions of the Trust Agreement and (ii) it is proper for the Trustee to join in the execution of that Supplement.

Defeasance

Release of Trust Agreement

(a) If the Authority shall pay all of the Outstanding Bonds, or shall cause them to be paid and discharged and all of the payments have been made pursuant to the Lease, then the Trust Agreement shall cease, determine and become null and void, and the Authority's obligations shall be released, discharged and satisfied.

(b) Thereupon:

(i) the Trustee shall release the Trust Agreement; and
(ii) the Trustee and any other Paying Agents shall, upon the request of the Authority and provision of assignment documents prepared by or on behalf of the Authority to the Trustee, assign and deliver to the Authority any property subject at the time to the lien of the Trust Agreement which then may be in their possession.

Payment and Discharge of Bonds.

(a) All or any part of the Bonds shall be deemed to have been paid and discharged if:

(i) the Trustee shall have received, in trust for and irrevocably committed thereto, sufficient moneys, or
(ii) the Trustee shall have received, in trust, noncallable Defeasance Obligations certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and to bear such interest and mature in such amounts as will be sufficient together with any applicable moneys to pay all Bond Service Charges on such Bonds, at maturity or prior redemption dates.

Covenants of the Authority and Limitation of Liability

Extent of Covenants; No Personal Liability. The Authority's covenants are and shall be deemed the Authority's covenants and not a covenant of any present or future member, officer, agent or employee of the Authority or the Board of Directors. Neither the members of the Board of Directors nor any official executing the Bonds, the Trust Agreement, the Lease or any amendment or supplement thereto shall be personally liable on the Bonds or subject to any personal liability or accountability because of the issuance of the Bonds or execution of those documents.

Damage or Destruction. If all or any part of the Special Facility is damaged or destroyed by fire, flood or other casualty, but to such an extent that the Special Facility remains substantially suitable as an aircraft maintenance repair and overhaul facility, the Authority shall repair the Special Facility. In the event that such damage or destruction is of such an extent as would substantially and adversely affect the Special Facility as an aircraft maintenance repair and overhaul facility and repairing and rebuilding the Special Facility would result or does result in the City being denied effective use of the Special Facility ("Destroyed"), then the Authority and the City shall decide within 120 days thereafter whether to rebuild the Special Facility or redeem the Series 2012 Bonds pursuant to the Trust Agreement. If the Authority and the City decide to rebuild the Special Facility, the Authority shall rebuild the Special Facility with reasonable diligence to the condition immediately before such loss.

Condemnation. In the event all or any part of the Special Facility is appropriated or taken under the power of eminent domain or sold under threat thereof (all of which will be referred to as being "Condemned"), in whole or in part, by any public or quasi-public authority, and the City shall decide within 120 days thereafter such taking or sale that such taking or sale has substantially and adversely affected the Special Facility as an aircraft maintenance repair and overhaul facility, the Authority shall redeem the Series 2012 Bonds in whole or in part pursuant to the Trust Agreement.

SUMMARY OF THE LEASE

The parties to the Lease are the Authority and the City. The Authority is the Lessor, the City is the Lessee.

Lease

Construction. The Lessor shall cause the Special Facility to be constructed.

Permitted Uses. The Lessee shall use the Project Site and the Special Facility for leasing or subleasing a certified aircraft maintenance, repair and overhaul facility and related offices and improvements, all in a manner to maintain the tax-exempt status of the interest on the Series 2012 Bonds under the Code and for other operations and services upon advance, written approval of the Lessor's, with an opinion of Bond Counsel that such other operations and services will not impair the tax-exempt status of the interest on the Series 2012 Bonds.

Term

Term. The initial term of the Lease commences the date of the Lease and continues until July 1, 2053,* unless the same shall be sooner terminated; provided however, that the Term may not expire or be terminated so long as any of the Series 2012 Bonds without regarding to the status of the completion of the Special Facility or the payment of City Rent.

Termination by Lessee. So long as the Series 2012 Bonds are no longer Outstanding, the Lessee shall have the right to terminate the Lease upon providing 90 days' notice to the Lessor.

Rent

Premises Rent. Commencing on July 1, 2013, the Lessee shall pay to the Lessor annual rental for the use of the Project Site together with the reasonable expenses of the Authority, if any, in administering the Series 2012 Bonds. Notwithstanding the foregoing or any adjustments allowed under the Lease, the amount of the Premises Rent shall be as follows: (i) if there is a sublessee occupying the Special Facility, then the Premises Rent due thereunder shall be equal to the amount of the Premises Rent paid by any sublessee to the Lessee under a sublease; (ii) if there is not a sublessee occupying the Special Facility and the Lessee is not physically occupying the Special Facility, then the Lessee shall not pay any Premises Rent thereunder; (iii) if the Lessee is physically occupying the Special Facility, then the Lessee shall pay the Premises Rent as provided thereunder.

The Premises Rent as increased every five years from and after the date of the lease, but not decreased to a rate lower than the rate in effect for the preceding five-year period, by a percentage equal to the lesser of (a) the percentage which the Consumer Price Index (CPI) (as defined below) increased during the immediately preceding SIXTY (60) month period ending THREE (3) months prior to the end of the applicable Adjustment Date or (b) fifteen percent (15%). For purposes of the Lease, CPI means the United States Department of Labor, Bureau of Statistics Consumer Price Index for all Urban Consumers (CPI-U), U.S. City Average (1982-1984=100). If at any time the CPI ceases to exist, Lessor may substitute any official index published by the Bureau of Labor Statistics or by a successor or similar government agency as may then exist and which in Lessor's reasonable business judgment shall be most nearly equivalent to the CPI. Notwithstanding the Premises Rent increases described above, but subject to any offset in the amount of Premises Rent due under the Lease as described therein, the annual Base Premises Rent shall be adjusted on July 1, 2038 and July 1, 2048. The Premises Rent is not secured by Excise Taxes, but is payable from lawfully available funds that have been budgeted by the City and appropriated for such purpose.

Base Rent. Commencing on July 1, 2013 and on each January 1 and July 1 thereafter so long as the Series 2012 Bonds are outstanding, Lessee shall pay the Trustee, as assignee of the Lessor the Base Rent.

City Rent. Premises Rent and Base Rent shall be referred to collectively herein as City Rent. The City Rent payments shall be first applied to Base Rent and then to Premises Rent.

Airport Rates and Charges Schedule. The Lessee's subtenant occupying the Special Facility shall pay the Airport Rates and Charges directly to the Lessor. If the Lessee is physically occupying the Special Facility, Lessee shall pay the Lessor the Airport Rates and Charges at the current rates.

Payment. All Premises Rent payments shall be paid on January 1 and July 1 to the Lessor, subject to any conditions, offsets or adjustments as provided in the Lease. Airport Rates and Charges shall be paid in the case of the Special Facility being occupied by a subtenant directly to the Lessor by the subtenant as provided in any sublease. Airport Rates and Charges shall be paid on January 1 and July 1 by the Lessee to the Lessor if the Lessee physically occupies the Special Facility in accordance with the Lease.

Determination of Taxability. Notwithstanding a Determination of Taxability and the redemption of all or a portion of the Series 2012 Bonds, the Lease shall continue for the duration of the Term of the Lease.

Taxes. Lessee's subtenant shall pay any taxes due as a result of the Lease. If there is no subtenant, the Lessor shall pay any taxes due as a result of the Lease.

* Preliminary, subject to change.

Lessee's City Rent Payments; Pledge; Excise Taxes

City Rent Payments from Excise Taxes; Pledge. The Lessee shall pay all City Rent and other amount payable due pursuant to the Lease (as well as amounts payable pursuant to the Continuing Disclosure Certificate with respect to the Series 2012 Bonds) from any lawfully available funds. The Lessee hereby pledges and assigns as security for the payment of the Base Rent due pursuant to the Lease the Lessee's Excise Taxes. The Lessee's pledge thereunder is subordinate to the Lessee's pledge on the Senior Lien Obligations.

Net Lease; Unconditional Rights. The Lease is a net lease. Lessee acknowledges and agrees that, subject to the limitation to payment from Excise Taxes, its obligations to pay Base Rent thereunder shall be absolute and unconditional, and shall not be affected by any circumstances whatsoever, including, without limitation: (i) any set-off, counterclaim, recoupment, defense or other right which Lessee may have against Lessor or the United States of America or anyone else for any reason whatsoever; (ii) any Permitted Exceptions (as defined in the Lease) with respect to the Project Site or the Special Facility; (iii) the invalidity or unenforceability or lack of due authorization or other infirmity of the Lease or any lack of right, power or authority of Lessor or Lessee to enter into the Lease; (iv) any insolvency, bankruptcy, reorganization or similar proceedings by or against Lessee, or any other person; or (v) any other cause, whether similar or dissimilar to the foregoing, any future or present law notwithstanding, it being the intention of the Parties hereto that all rent being payable by Lessee thereunder shall continue to be payable in all events and in the manner and at the times provided herein. So long as the Series 2012 Bonds are outstanding, the Lessee (i) shall perform and observe all of its agreements contained herein, and (ii) will not terminate the Lease for any reason, including, without limitation, the status of the completion of the Special Facility, any acts or circumstances that may constitute destruction of or damage to the Special Facility, frustration of purpose, or any failure of the Lessor to perform and observe any agreement whether express or implied, or any duty, liability or obligation arising out of or connected with the Lease.

Ad Valorem Taxes. No part of the Base Rent, Premises Rent, Airport Rates and Charges and other payments payable pursuant to the Lease shall be payable out of any ad valorem taxes imposed by the Lessee, from Series 2012 Bonds or other obligations, the payment of which the general taxing authority of the Lessee is liable or pledged, or from its general funds, unless (i) the same shall have been duly budgeted by the Lessee according to law, (ii) such payment or payments shall be within the budget or expenditure limitations of the Constitution and laws of the State of Arizona, and (iii) such payment is not in conflict with the Constitution and laws of the State of Arizona.

Excise Taxes; Lien or Pledge; Parity Subordinate Lien Obligations; Parity Senior Lien Obligations; Subordinate Pledge. So long as the Series 2012 Bonds are outstanding, notwithstanding any other provision of the Lease, the Lessee is and shall be absolutely and unconditionally obligated to pay all Base Rent payable in accordance herewith due pursuant to the Lease from Excise Taxes or other lawfully available funds. In addition, the Lessee agrees not to grant any lien or pledge of or upon Excise Taxes superior to the lien created by the Lease to secure payment of all Base Rent payments due under the Lease, which Base Rent payments shall be used by the Lessor to pay principal and interest on the Series 2012 Bonds and Parity Subordinate Lien Obligations, except for the lien or pledge of Excise Taxes to the payment of the Senior Lien Obligations and Parity Senior Lien Obligations as provided in the Lease. The Lessee intends that the pledge shall be a subordinate lien upon all Excise Taxes as will be sufficient to make the Base Rent payments pursuant to the Lease, and the Lessee shall make such payments from receipts from such Excise Taxes, except to the extent that it makes such payments from other funds pursuant to the Lease.

Rate Covenant. For as long as the Series 2012 Bonds remain outstanding, the Lessee will maintain Excise Taxes so that the combined amount of Excise Taxes in any Fiscal Year of the Lessee will be equal to at least two (2) times the total of all Senior Lien Debt Service Requirements of the Senior Lien Obligations and the Subordinate Lien Debt Service Requirements on the Series 2012 Bonds and any Parity Subordinate Lien Obligations payable during such Fiscal Year. If receipts from Excise Taxes for the preceding Fiscal Year shall not equal at least two (2) times the Senior Lien Debt Service Requirements of the Senior Lien Obligations and the Subordinate Lien Debt Service Requirements on the Series 2012 Bonds and any Parity Subordinate Lien Obligations payable for the current Fiscal Year, the Lessee will promptly impose new taxes of the type included within the definition of "Excise Taxes" or other Lessee taxes or fees, or increase the rates for the Excise Taxes currently imposed in order that (i) the current receipts will be sufficient to meet the Base Rent payable under the Lease during the Fiscal Year, and (ii) the current year's receipts will be reasonably calculated to attain the level as required above for the succeeding Fiscal Year's Senior Lien Debt Service Requirements of the Senior Lien Obligations and the Subordinate Lien Debt Service Requirements on the Series 2012 Bonds and any Parity Subordinate Lien Obligations.

Parity Senior Lien Obligations. So long as any of the Series 2012 Bonds and Bonds remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, the Lessee will not further encumber the Excise Taxes pledged under the Lease on a basis senior to the pledge thereunder unless the Excise Taxes received by the Lessee in the next preceding Fiscal Year shall have amounted to at least two (2) times the highest combined Senior Lien Debt Service Requirements and Subordinate Lien Debt Service Requirements for any succeeding Fiscal Year for amounts payable on any Outstanding Senior Lien Obligations and any Parity Senior Lien Obligations, including those so proposed to be secured by a pledge of the same Excise Taxes and the Subordinate Lien Debt Service Requirements on the Series 2012 Bonds and any Parity Subordinate Lien Obligations. Subject to the foregoing, the Lessee shall have the right to incur future obligations payable from and secured by the Excise Taxes on a parity with the Senior Lien Obligations.

Parity Subordinate Lien Obligations. So long as any of the Series 2012 Bonds remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, the Lessee will not further encumber the Excise Taxes pledged under the Lease on a basis equal to the pledge thereunder unless the Excise Taxes received by the Lessee in the next preceding Fiscal Year shall have amounted to at least two (2) times the highest combined Senior Lien Debt Service Requirements and Subordinate Lien Debt Service Requirements for any succeeding Fiscal Year for amounts payable on any outstanding Senior Lien Obligations, any Parity Senior Lien Obligations, the Series 2012 Bonds and any Parity Subordinate Lien Obligations including those so proposed to be secured by a pledge of the same Excise Taxes. Subject to the foregoing, the Lessee shall have the right to incur future obligations payable from and secured by the Excise Taxes on a parity with the Series 2012 Bonds.

Enforcement of Pledge. The Trustee, on behalf of the registered owners of the Series 2012 Bonds may enforce the liens, pledges, covenants and agreements in place of the Lessor in accordance with the terms and conditions of the Trust Agreement.

Improvements

Title to Alterations and Improvements. Title to all improvements, alterations, additions, enhancements or modifications on the Project Site or the Special Facility (but not personal property or trade fixtures financed with proceeds other than of the Series 2012 Bonds) shall immediately, upon completion or installation thereof, become the property of Lessor without payment therefor by the Lessor, and shall be surrendered to Lessor upon the expiration or other termination of the Lease.

Mechanic's Liens. Lessee shall keep the Project Site and the Special Facility and all improvements thereon free of any mechanic or materialmen's liens.

Damage or Destruction; Condemnation. If any part of the Special Facility is damaged or destroyed by fire, flood or other casualty, but to such an extent that the Special Facility remains substantially suitable as an aircraft maintenance repair and overhaul facility or used for another governmental purpose, the Authority shall repair the Special Facility. In the event that such damage or destruction is of such an extent as would substantially and adversely affect the Special Facility as an aircraft maintenance repair and overhaul facility and repairing and rebuilding or for another governmental purpose the Special Facility would result or does result in the City being denied effective use of the Special Facility, then the Authority and the City shall decide whether to rebuild the Special Facility or redeem the Series 2012 Bonds pursuant to the Trust Agreement. If the Authority and the City decide to rebuild the Special Facility, the Authority shall rebuild the Special Facility with reasonable diligence to the condition immediately before such loss.

In the event the Special Facility is appropriated or taken under the power of eminent domain or sold under threat thereof, in whole or in part, by any public or quasi-public authority, the Authority shall at the direction of the City redeem the Series 2012 Bonds in whole or in part pursuant to the Trust Agreement.

Maintenance

Damage to Project Site and/or Special Facility. To the extent any repair and replacement or payment of all damage and destruction to the Special Facility and/or Project Site has not been covered by the Lessee's sublessee, the Lessor shall, at its sole cost and expense, repair and replace all damage or destruction to the Special Facility and/or Project Site.

No Security in Special Facility; Financing Statements. The Special Facility will not constitute security for the performance of the obligations of Lessee thereunder or security for the Series 2012 Bonds.

Default; Termination by Lessor

Event of Default. The failure of Lessee to pay any installment of Base Rent due and owing from Lessee under the Lease shall constitute an "event of default."

Lessor's Remedies. Upon the occurrence of an event of default under the Lease, Lessor may, without prejudice to any other rights and remedies available to a Lessor at law, or in equity, exercise one or more of the following remedies, all of which shall be construed and held to be cumulative and non-exclusive; provided however that Lessor may not terminate the Lease.

a. Without terminating the Lease, re-enter and take possession of the Project Site or the Special Facility; or

b. Without such re-entry, recover possession of the Project Site or the Special Facility in the manner prescribed by any statute relating to summary process, and any demand for Base Rent, re-entry for condition broken, and any and all notices to quit, or other formalities of any nature to which Lessee may be entitled, are hereby specifically waived to the extent permitted by law; or

c. Without terminating the Lease, Lessor may re-let the Project Site or Special Facility or any portion thereof.

d. Without terminating the Lease, Lessor may enforce the Lessee's pledge of its Excise Taxes as security for the payment of the Base Rent due thereunder.

No Termination. Lessor shall not terminate the Lease or be deemed to have terminated the Lease in the exercise of any remedy thereunder. Notwithstanding any Event of Default under the Lease, the Series 2012 Bonds shall not be subject to acceleration for any reason. Lessee hereby waives all claims based on Lessor's reentering and taking possession of the Project Site and/or Special Facility or removing and storing the property of Lessee and shall save Lessor harmless from all losses, costs or damages occasioned thereby. No such reentry shall be considered or construed to be a forcible entry by Lessor.

Lessor's Damages Relating to Base Rent. So long as the Series 2012 Bonds are outstanding, at any time after an Event of Default, whether or not Lessor shall have collected any monthly deficiency as set forth above, Lessor shall be entitled to recover from Lessee, and Lessee shall pay to Lessor, on demand, as damages for the applicable Event of Default, the amount of the Base Rent necessary to pay the then outstanding amounts due on the Series 2012 Bonds. Such amounts shall be paid by the Lessee from Excise Taxes.

Tax Covenants

Lessee covenants that with respect to any of its sublessee or its direct occupation of the facility as follows:

a. The Lessee is a political subdivision of the State of Arizona.

b. The Lessee hereby makes an irrevocable election (binding on the Lessee and all successors and sublessees in interest under this Lease) not to claim depreciation or an investment credit with respect to the Special Facility.

c. The terms of any sublease to a private party, including the Sublessee, shall not be more than 80% of the reasonably expected economic life of the Special Facility.

d. The Lessee does not have an option to purchase the Special Facility.

e. Lessee will require its sublessee to covenant in any sublease the tax covenants necessary to ensure that the Special Facility qualifies as an aircraft maintenance, repair and overhaul facility as set forth in the Code.

f. Lessee will not permit any sublessee to lease or otherwise provide use of the Special Facility to any non-exempt persons for use in their trade or business other than use on the same basis as the general public.

g. The primary function of the Special Facility, if not used for government purposes only, will be the maintenance and service of aircraft. The Special Facility will not be used primarily for the manufacture or modification of aircraft.

Insurance

Coverage Required. Lessee shall procure and at all times maintain insurance for its operations at the Airport, and such insurance coverage may be provided by the Lessee through a self-insurance policy in a commercially reasonable manner or satisfied by the insurance obtained by the Sublessee. If insurance coverage is obtained by the Lessee's subtenant, then the Lessor acknowledges and agrees that Lessee's subtenant's insurance shall be the primary insurance coverage and the Lessee's insurance shall be the secondary insurance coverage.

Lessee's Coverage. The Lessor shall procure and maintain insurance to insure against loss or damage to the Special Facility amount equal to or greater than the replacement cost of improvements, including the Special Facility, and other facilities and/or any fixtures to be constructed on and/or affixed to the Project Site and/or Special Facility at all times.

Federal Aviation Administration (FAA) Provisions

Lessee agrees that it will comply with the Federal Aviation Administration (FAA) Provisions set forth in the Lease.

Quitclaim Deed

The Lease is subject to all terms and conditions of the Deed. Lessee assumes all obligations and responsibilities of the Lessor under the Deed with respect to the Project Site.

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APPENDIX D

CITY OF MESA, ARIZONA

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A prior period adjustment was recorded, as described in Note 2, to restate the governmental activities beginning net assets for an error in the previously reported financial statements related to depreciation expense calculated on capital leases. Business-type activities beginning net assets were restated for an error in the previously issued financial statements related to an error in recording joint venture activity.

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011, which represents a change in accounting principle.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 17, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 86, the Other Postemployment Benefit Plan Schedule of Funding Progress on page 87, and budgetary comparison information on pages 88 through 90 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
December 7, 2011

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, 2011. 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 18 and the accompanying notes to the financial statements.

Financial Highlights

- The City's total net assets decreased $69 million in fiscal year 2011.

- Total net assets of the City are $1.65 billion, of which $252 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

- As of the end of fiscal year 2011, the City's governmental funds reported a combined ending fund balance of $235.8 million, a $1.6 million increase from the previous year. A complete reconciliation of the governmental funds' fund balance to the governmental activities' net assets is on page 22.

- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was $93.9 million, or 29% of total General Fund expenditures.

- The City issued $29.3 million in general obligation debt during the current fiscal year for new street and public safety improvement projects

- The City issued $53.9 million in utility system revenue debt during the current fiscal year for electric, gas, water and wastewater improvement projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements (pages 18–20) are designed to provide a broad overview of the City's finances in a manner similar to private businesses. All the activities of the City, except fiduciary activities, are included in these statements.

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

The *statement of activities* presents information showing how the City's net assets changed over the most recent fiscal year. All changes to net assets are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also focuses on both the gross and net costs of the various functions of the City, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general revenues for support.

The activities of the City are presented in two columns on these statements – governmental activities and business-type activities. A total column for the City is also provided.

- The *governmental activities* include the City's basic services including general government (administration), public safety, cultural-recreational, and community environment. Taxes and general revenues generally support these activities.

- The *business-type activities* include private sector type activities such as the City-owned electric, gas, water, wastewater and solid waste systems, as well as the City-owned airport, golf courses, stadiums, convention center and district cooling. These activities are primarily supported by user charges and fees.

The City restated the beginning net assets for the governmental-type activities due to an error in calculating the depreciation expense for a capital lease for fiscal year 2009 and fiscal year 2010. This resulted in an increase to beginning net assets of $6.6 million. See Note 2 to the basic financial statements for additional details of this restatement.

The City restated the beginning net assets for the business-type activities due to errors in calculating the joint venture expenses from prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 to the basic financial statements for additional details of this restatement.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of the City. Traditional fund financial statements are presented for governmental funds, proprietary funds and fiduciary funds. These fund financial statements now focus on major funds of the City, rather than fund types used in the previous financial reporting model.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements (pages 21-24) focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer-term focus, a reconciliation of the differences between the two is provided with the fund financial statements and also in Note 3 to the basic financial statements (pages 53-58).

For the fiscal year ended June 30, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54- *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement changed the previous reporting of Reserved and Unreserved fund balance to five new classifications, which are Nonspendable, Restricted, Committed, Assigned and Unassigned. This statement also added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types. See Note 1 p and Note 2 to the financial statements for additional detail.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet support; materials and supplies; printing and graphics; and the property and public liability; workers' compensation and employee benefits self-insurance programs. Since the primary customers of the internal service funds are the governmental activities, the assets and liabilities of those funds are included in the governmental activities column of the government-wide statement of net assets. The costs of internal service funds are allocated to the various user functions on the government-wide statement of activities. The proprietary fund financial statements (pages 25–30) are prepared on the same long-term focus as the government-wide financial statements. The enterprise funds provide the same information as the government-wide financial statements, only with more detail. The internal service funds are combined into a single column on the proprietary funds statements. Additional detail of the internal service funds can be found in the combining statements (pages 105-110).

The City restated the beginning net assets for the Enterprise Fund due to errors in calculating the joint venture expenses that occurred in prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 for additional details of this restatement.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of others outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's programs. The fiduciary fund financial statement (page 31) is prepared on the same basis as the government-wide and proprietary fund financial statements.

Notes to the financial statements – The notes to the financial statements (pages 32–85) provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Other information – Governments have an option of including the budgetary comparisons statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements or as required supplementary information after the notes to the financial statements. The City has chosen to present these budgetary statements as required supplementary information beginning on page 88.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2011 and as of and for the year ended June 30, 2010.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2011 and 2010.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	Percent
Cash and Other Assets	$ 426,059	$ 428,176	$ 464,539	$ 449,421	$ 890,598	$ 877,597	$ 13,001	1.48
Capital Assets	1,279,788	1,269,292	1,302,381	1,289,921	2,582,169	2,559,213	22,956	0.90
Total Assets	1,705,847	1,697,468	1,766,920	1,739,342	3,472,767	3,436,810	35,957	1.05
Non-current Liabilities, Outstanding	691,599	639,725	953,975	900,502	1,645,574	1,540,227	105,347	6.84
Other Liabilities	109,026	115,715	68,505	61,677	177,531	177,392	139	0.08
Total Liabilities	800,625	755,440	1,022,480	962,179	1,823,105	1,717,619	105,486	6.14
Net Assets:								
Invested in Capital Assets, Net of Related Debt	872,302	851,422	430,436	458,447	1,302,738	1,309,869	(7,131)	(0.54)
Restricted	39,296	86,955	55,873	47,011	95,169	133,966	(38,797)	(28.96)
Unrestricted	(6,376)	3,651	258,131	271,298	251,755	274,949	(23,194)	(8.44)
Total Net Assets	$ 905,222	$ 942,028	$ 744,440	$ 776,756	$ 1,649,662	$ 1,718,784	$ (69,122)	(4.02)

In the case of the City, the combined net assets (governmental activities and business-type activities) exceeded liabilities by $1.65 billion at the close of the most recent year.

The net assets decreased $69 million (4%) in fiscal year 2011. The governmental activities decreased $37 million, after restatement, while the business-type activities decreased $32 million, after restatement.

The largest portion of net assets (79%) 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.

$95 million of the City's net assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net assets of $252 million may be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets

The following table shows the revenues and expenses of the City for the fiscal years ended June 30, 2011 and 2010.

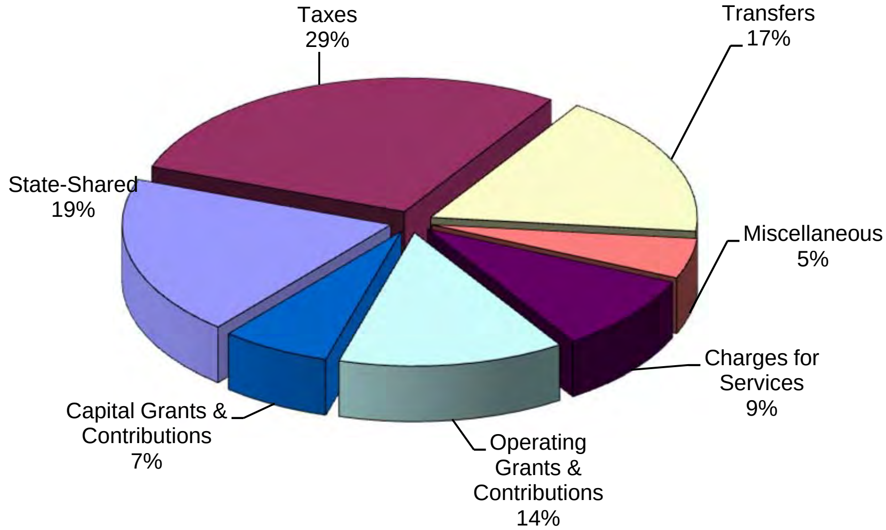
Changes in Net Assets
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	Percent
REVENUES								
Program Revenues:								
Charges for Services	$ 44,710	$ 42,386	$ 299,473	$ 289,374	$ 344,183	$ 331,760	$ 12,423	3.74 %
Operating Grants & Contributions	65,284	72,812	25	210	65,309	73,022	(7,713)	(10.56)
Capital Grants & Contributions	31,461	30,343	10,774	17,782	42,235	48,125	(5,890)	(12.24)
General Revenues:								
Sales Taxes	121,046	121,557	-	-	121,046	121,557	(511)	(0.42)
Property Taxes	14,244	14,318	-	-	14,244	14,318	(74)	(0.52)
Occupancy Taxes	2,148	1,581	-	-	2,148	1,581	567	35.86
Unrestricted State-Shared	92,613	104,581	-	-	92,613	104,581	(11,968)	(11.44)
Contributions	15,611	14,757	-	-	15,611	14,757	854	5.79
Unrestricted Investment Income	617	261	839	508	1,456	769	687	89.34
Miscellaneous	7,060	13,846	-	-	7,060	13,846	(6,786)	(49.01)
Total Revenues	394,794	416,442	311,111	307,874	705,905	724,316	(18,411)	(2.54)
EXPENSES								
Governmental Activities:								
General Government	59,552	54,863	-	-	59,552	54,863	4,689	8.55 %
Public Safety	273,320	285,607	-	-	273,320	285,607	(12,287)	(4.30)
Cultural-Recreational	54,549	54,010	-	-	54,549	54,010	539	1.00
Community Environment	106,434	104,096	-	-	106,434	104,096	2,338	2.25
Interest on Long-term Debt	21,078	20,013	-	-	21,078	20,013	1,065	5.32
Business-type Activities:								
Electric	-	-	26,816	27,106	26,816	27,106	(290)	(1.07)
Gas	-	-	36,020	35,466	36,020	35,466	554	1.56
Water	-	-	82,378	80,915	82,378	80,915	1,463	1.81
Wastewater	-	-	63,614	64,262	63,614	64,262	(648)	(1.01)
Solid Waste	-	-	31,462	31,504	31,462	31,504	(42)	(0.13)
Airport	-	-	3,972	3,944	3,972	3,944	28	0.71
Golf Course	-	-	2,679	2,715	2,679	2,715	(36)	(1.33)
Convention Center	-	-	3,849	4,158	3,849	4,158	(309)	(7.43)
Hohokam Stadium/Fitch Complex	-	-	8,324	7,408	8,324	7,408	916	12.37
Cubs Stadium	-	-	15	-	15	-	15	100.00
District Cooling	-	-	965	1,000	965	1,000	(35)	(3.50)
Total Expenses	514,933	518,589	260,094	258,478	775,027	777,067	(2,040)	(0.26)
Increase (decrease) in Net Assets Before Transfers	(120,139)	(102,147)	51,017	49,396	(69,122)	(52,751)	(16,371)	31.03
Transfers	83,333	65,433	(83,333)	(65,433)	-	-	-	0.00
Change in Net Assets	(36,806)	(36,714)	(32,316)	(16,037)	(69,122)	(52,751)	(16,371)	31.03
Net Assets-Beginning, as Restated	942,028	978,742	776,756	792,793	1,718,784	1,771,535	(52,751)	(2.98)
Net Assets-Ending	$ 905,222	$ 942,028	$ 744,440	$ 776,756	$ 1,649,662	$ 1,718,784	$ (69,122)	(4.02)

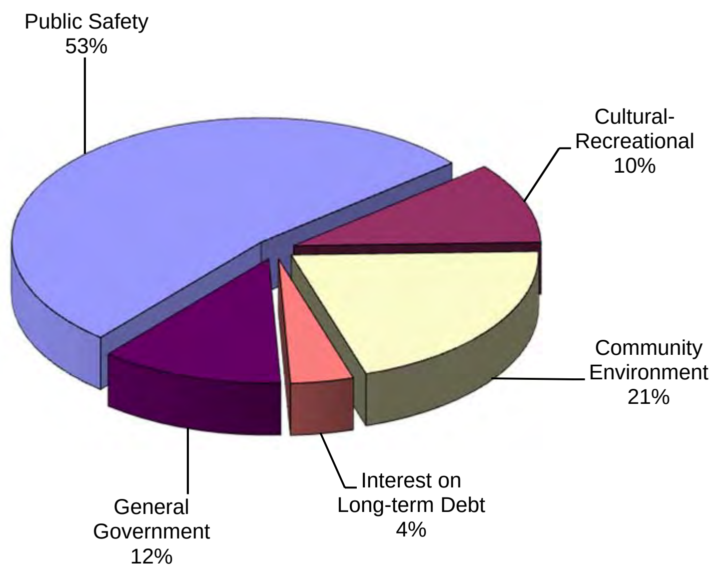
Governmental Activities

As presented in the following two graphs, the largest funding sources, including transfers, for the governmental activities are taxes (29%) and state-shared revenues (19%). The largest users of resources for the governmental activities are Public Safety (53%), Community Environment (21%), General Government (12%), and Cultural-Recreational (10%).

Revenues by Source Including Transfers – Governmental Activities
For the Fiscal Year Ended June 30, 2011

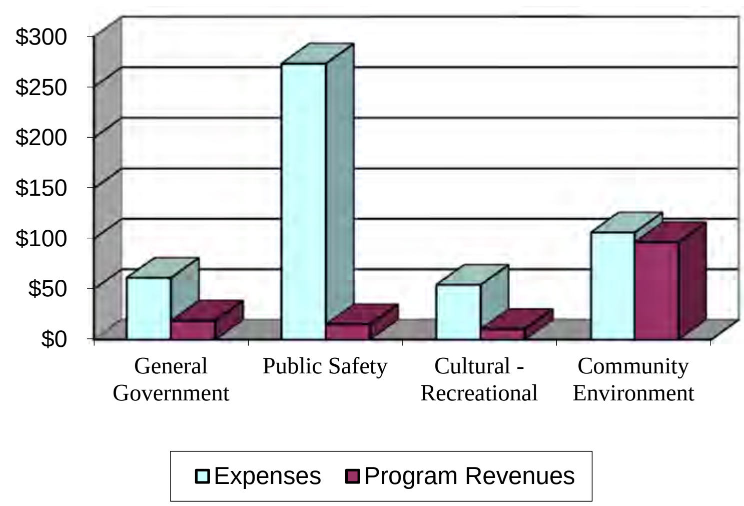


Functional Expenses – Governmental Activities
For the Fiscal Year Ended June 30, 2011



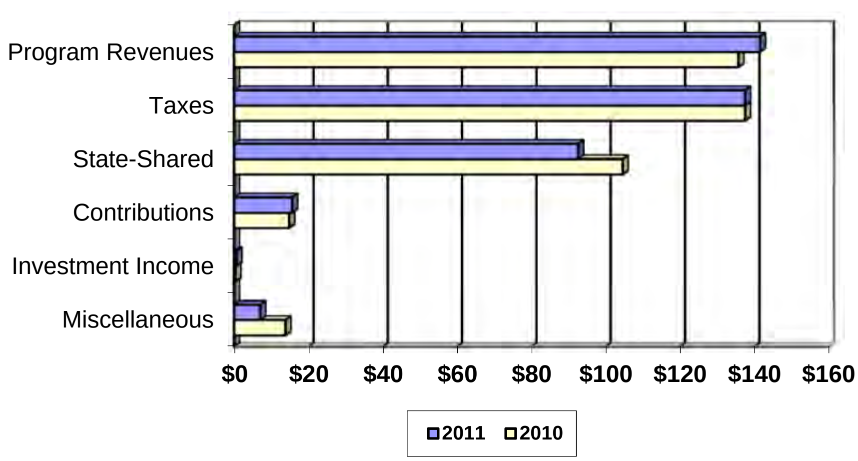
The following graph shows the functional revenues and expenses of the governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this is not intended to represent the full cost allocation to these functions. General revenues of the City, including an $83.3 million transfer from the business-type activities, cover expenses not generated by direct program revenues.

Expenses and Program Revenues – Governmental Activities
For the Fiscal Year ended June 30, 2011
(In millions of dollars)



Governmental activities decreased the net assets of the City by $37 million accounting for a 3.9% decrease. Governmental activities accounted for 56% of the total revenues and 66% of the total expenses of the City in fiscal year 2011. This compares to 57% of total revenues and 66% of the total expenses in fiscal year 2010.

Governmental Activities Revenues
For Fiscal Years 2011 and 2010
(In millions of dollars)



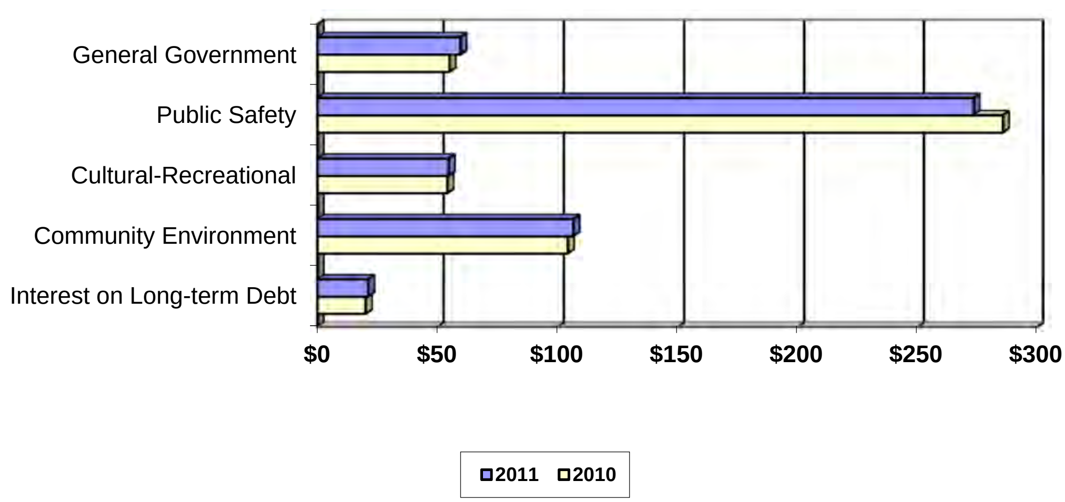
The graph above compares governmental activities revenues from fiscal year 2011 to fiscal year 2010. Total governmental activities revenues decreased $21.6 million from $416.4 million to $394.8 million. This is the fourth consecutive year that governmental activities revenues declined. Key factors in this change include:

- The program revenues (charges for services, grants and contributions that are clearly identifiable to an operating activity) of the governmental activities decreased $4 million over the previous year. There was a $2.4 million decrease in the amount of capital contributions of streets, storm sewers and retention basins by developers over the previous year. These capital contributions are not cash revenues and therefore are not available to cover operating expenses. Operating grants and contributions decreased by $7.5 million over the previous year due to decreased federal funding resulting from the American Reinvestment and Recovery Act of 2009.

- Sales taxes decreased by only $0.5 million over the previous year reflecting some stability is returning to the local economy after decreasing by $5 million in the previous fiscal year.

- State shared revenues decreased by $12.0 million over the previous year because of reduced revenues received from the state.

Governmental Activities Functional Expenses
For Fiscal Years 2011 and 2010
(In millions of dollars)



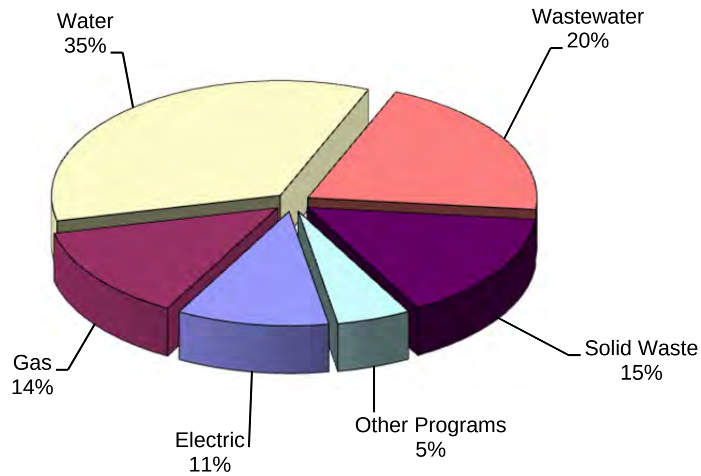
The graph above compares governmental activities expenses from fiscal year 2011 to fiscal year 2010. Total governmental expenses decreased by $3.7 million from $518.6 million, as restated to $514.9 million. Key factors in this change include:

- The changes in the General Government and Public Safety functions resulted from depreciation adjustments relating to useful life and in-service dates.

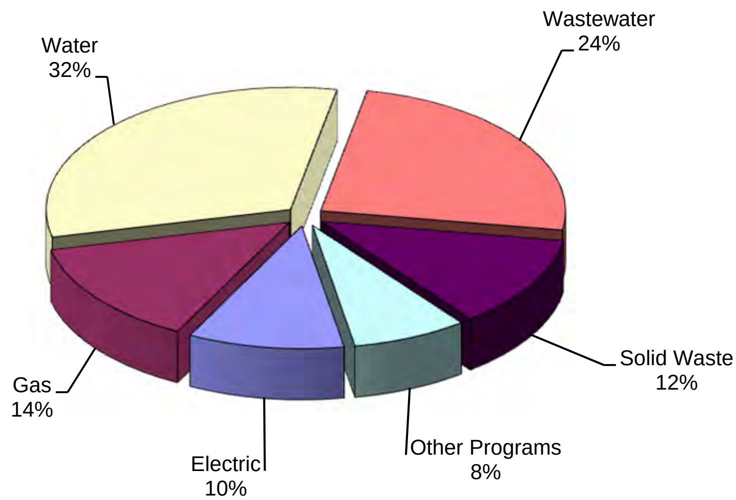
Business-type Activities

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

Revenues by Source – Business-type Activities

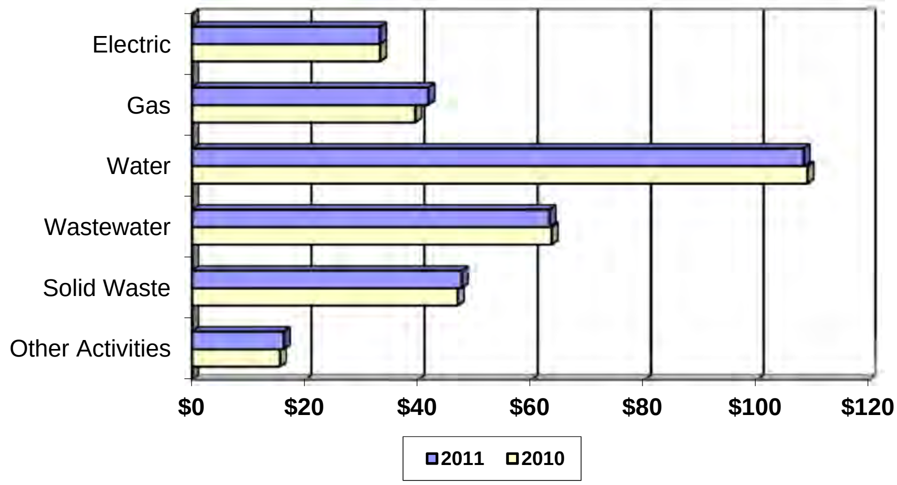


Functional Expenses – Business-type Activities



Business-type activities decreased the City's net assets by $32 million. Total business-type activities program and general revenues increased by $3.2 million (1%) from $307.9 million to $311.1 million, while the business-type activities total expenses increased by $1.6 million from $258.5 million, as restated to $260.1 million. Business-type activities accounted for 44% of the total revenues and 34% of the total expenses of the City in fiscal year 2011. This compares to 43% of total revenues and 34% of the expenses in fiscal year 2010.

Business-type Activities
Program Revenues
For Fiscal Years 2011 and 2010
(In millions of dollars)

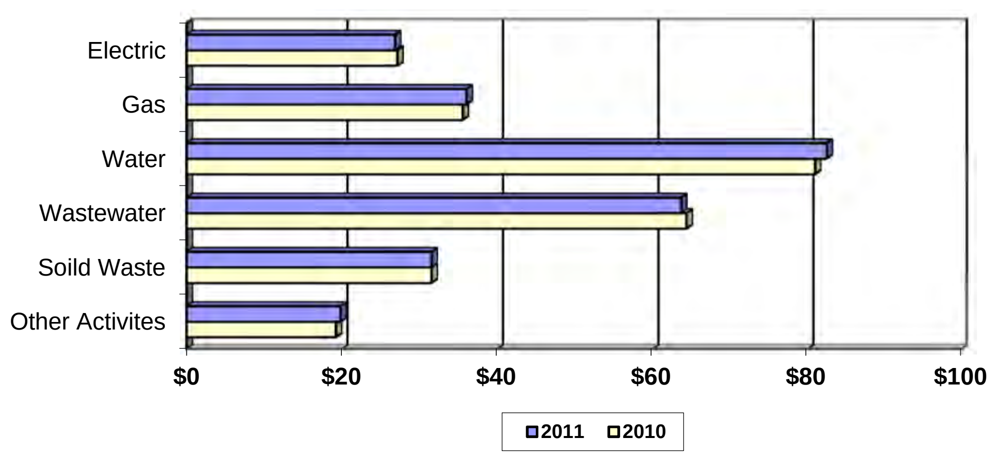


The graph above compares program revenues for the Business-type Activities from fiscal year 2011 to fiscal year 2010. Total business-type activities program revenues increased by $2.9 million (0.9%) from $307.4 million to $310.3 million. Key factors in this change include:

- Capital contributions decreased by $7.0 million from the previous year and, while they continue to be a major revenue source for the business-type activities, the amount contributed each year is dependent on how well the construction activity in the City is performing.

- Charges for Services increased $10.1 million reflecting increases in the rate structure and usage. All commodity cost increases in the Electric and Gas utilities are passed through to the customers.

Business-type Activities
Functional Expenses
For the Fiscal Years 2011 and 2010



- The transfer to the General Fund increased by $17.9 million over the previous fiscal year. This transfer is used by the governmental activities programs to cover expenses not generated by direct program revenues.

Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City's governmental funds (pages 21-24) is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported combined ending fund balance of $235.8 million, a $1.6 million increase from the previous year. $93.9 million of this total amount is in unassigned fund balance, available for spending in the coming year. The remainder of fund balance includes $114.5 million in restricted fund balance, $24.1 million in committed find balance and $3.3 million in nonspendable fund balance. See Note 1 p. to the basic financial statements for additional detail on these fund balance amounts.

The General Fund is the chief operating fund of the City and accounts for many of the major functions of the government including general government, public safety, cultural-recreational and community environment services. At the end of the current fiscal year, total fund balance of the General Fund was $101.2 million, while unassigned fund balance was $93.9 million.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. For 2011, unassigned fund balance represents 29.4% of total General Fund expenditures of $319 million, while total fund balance represents 31.7% of the same amount.

Total fund balance of the City's General Fund decreased by $6.2 million during the current fiscal year from $107.4, as restated, to $101 million. Total revenues of $256 million were $62 million less than the previous year, however approximately $45 million of this difference is due to the reclassification of funds and property tax revenue due to the implementation of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* State-shared revenue reported in the General Fund was $13 million less than the prior fiscal year.

Total expenditures of $319 million were $31 million less than the previous year, however approximately $22 million of this difference is due to the reclassification of funds and property tax revenue due to the implementation of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. See Note 1 to the financial statements for additional detail on this new GASB standard. Capital outlay expenditures increased $4.7 million from the prior fiscal year.

The transfer in of $83.6 million, mostly from the Enterprise Fund, was reduced by $26.9 million in transfers out to other funds, compared with a transfer in from the Enterprise Fund of $85.5 million that was reduced by $47 million in transfers out to other funds in the previous year.

The Highway User Revenue Fund that accounts for the capital and maintenance costs for the City's streets received $246 thousand more in state-shared revenue and had an increase of $13 million in street-related expenditures.

The City's Capital Project Funds that account for the acquisition and construction of major capital facilities other than those reported in the proprietary funds reported a decrease of $25.9 million in capital expenditures. These expenditures were for improvements in law enforcement, fire, storm sewers, streets, parks and other city facilities. Included in these expenditures are $200 thousand in Vehicle Replacement Fund expenditures that was reclassified from the Special Revenue Funds due to GASB Statement No. 54. See Note 1 p. and Note 2 of the basic financial statements for additional details.

Proprietary Funds - The City's Enterprise Fund (pages 25-30) provides the same type of information as the government-wide financial statements, except in more detail. The City restated the beginning net assets for the Enterprise Fund due to errors in calculating the joint venture expenses that occurred in prior fiscal years and for bond premiums related to the 2009 Utility System Revenue Bond issue. These premiums were recognized all in fiscal year 2009 instead of being amortized over the life of the bonds. These resulted in an increase to beginning net assets of $23.2 Million. See Note 2 of the basic financial statements for additional details of this restatement.

The total net assets of the Enterprise Fund decreased by $31.7 million in fiscal year 2011 from $778.9 million, after restatement, in fiscal year 2010 to $747.2 million. The unrestricted net assets of the Enterprise Fund amounted to $211.3 million. Other factors concerning the finances of the Enterprise Fund have already been addressed in the discussion on the City's business-type activities.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison schedules are required for the General Fund and major special revenue funds and may be found on pages 88-90. These schedules compare the original adopted budget, the budget as amended throughout the year, and the actual expenditures prepared on a budgetary basis. Budgetary schedules for the other governmental funds as well as the proprietary funds are also presented on pages 112-138.

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see Note 1.r. and Note 1.s. of the notes to the financial statements for more information on budget policies). No amendments increasing the City's total adopted budget of $1.113 billion occurred during fiscal year 2011. Contingency allocations were made at fiscal year-end to cover programs in the General Fund of $3.6 million.

General Fund revenues of $270.5 million, on a budgetary basis, were less than budgeted revenues of $287.9 million by $17.4 million while expenditures of $352.2 million were only 81% of budgeted expenditures. The shortfall in revenues is due to lower revenue received in sales taxes and intergovernmental revenue. Sales taxes continued to be less than budgeted, however, they appear to have stabilized. Federal grant revenues were less than budgeted however, since the majority of the Federal grants are on a reimbursement basis, the City also did not have the associated expenditures. Reduced expenditures resulted from the continuation of a hiring freeze and unused contingency allocations.

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business-type activities amounts to $2.6 billion (net of accumulated depreciation/amortization) as of June 30, 2011. This investment in capital assets includes land, buildings, other improvements, machinery and equipment, intangibles and infrastructure. Infrastructure assets are items that are normally immovable and have value only to the City, such as streets, street lighting systems and storm drainage systems.

The following table provides a breakdown of the City's capital assets at June 30, 2011 and 2010.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Change	
	2011	2010 As Restated	2011	2010 As Restated	2011	2010 As Restated	Dollars	Percent
Land	$ 265,803	$ 261,771	$ 58,803	$ 59,947	$ 324,606	$ 321,718	$ 2,888	0.90 %
Water Rights	-	-	12,761	17,570	12,761	17,570	(4,809)	(27.37)
Buildings	232,855	239,228	36,530	60,266	269,385	299,494	(30,109)	(10.05)
Other Improvements	147,205	82,990	133,904	969,620	281,109	1,052,610	(771,501)	(73.29)
Machinery & Equipment	44,884	48,391	128,512	53,262	173,396	101,653	71,743	70.58
Intangibles	14	15	3,920	4,219	3,934	4,234	(300)	(7.09)
Infrastructure	499,485	498,342	814,481	6,879	1,313,966	505,221	808,745	160.08
Construction-in-Progress	89,542	138,555	113,470	118,158	203,012	256,713	(53,701)	(20.92)
Total	$ 1,279,788	$ 1,269,292	$ 1,302,381	$ 1,289,921	$ 2,582,169	$ 2,559,213	$ 22,956	0.90

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

- The City continued construction of the South Central Arizona Project Water Treatment Plant with $1.2 million spent during fiscal year 2011. The $87.7 million facility will serve the growing southeast area of the City. The plant will have an initial capacity of 24 million gallons a day with the ability to expand to 48 million gallons a day.

- The City started an implementation of an Enterprise Resource Planning (ERP) system with $7.1 million spent during fiscal year 2011. The ERP system will replace the current Human Resources/Payroll and Financial applications in the City. The $24.7 million project will have a final implementation on January 1, 2013.

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

Debt Administration - At the end of the current fiscal year, the City had total bonded debt outstanding of $1.293 billion. Of this amount, $281 million comprises debt backed by the full faith and credit of the City and $1.012 billion represents bonds secured by specified revenue sources (i.e., Utility System Revenue Bonds and Highway User Revenue Bonds).

The City's outstanding long-term debt, including bonds, capital leases and notes payable was $1.348 billion at June 30, 2011. $458 million of this total was in governmental activities and

$890 million was in business-type activities. The City's outstanding long-term debt (considering new borrowings, debt retirements and refunding) increased $41 million. New borrowings during the fiscal year included $29.3 million in general obligation bonds and $53.9 million in utility system revenue bonds.

The following schedule shows the outstanding long-term debt of the City as of June 30, 2011 and 2010.

Outstanding Long-term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Change	
	2011	2010	2011	2010	2011	2010	Dollars	Percent
General Obligation Bonds	$ 279,028	$ 270,593	$ 2,210	$ 2,672	$ 281,238	$ 273,265	$ 7,973	2.92 %
Utility System Revenue Bonds	-	-	884,995	841,864	884,995	841,864	43,131	5.12
Highway User Revenue Fund Bonds	126,573	132,220	-	-	126,573	132,220	(5,647)	(4.27)
Special Assessment Bonds with Governmental Commitment	5,806	6,550	-	-	5,806	6,550	(744)	(11.36)
Capital Leases	2,166	5,406	-	-	2,166	5,406	(3,240)	(59.93)
Notes Payable	45,000	45,000	2,731	2,964	47,731	47,964	(233)	(0.49)
Total	$ 458,573	$ 459,769	$ 889,936	$ 847,500	$ 1,348,509	$ 1,307,269	$ 41,240	3.15

The City's current bond ratings are as follows:

	Standard and Poor's Corporation	Moody's Investors Service
General Obligation Bonds	AA	Aa2
Highway User Revenue Bonds	AA	A1
Utility Systems Revenue Bonds	AA-	Aa2

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

The total debt margin available July 1, 2011 is:

6% Bonds	$184,531,122
20% Bonds	354,445,979
Total Available	$538,977,101

Additional information on the City's long-term obligations can be found in Note 6 and Note 7 of the notes to the basic financial statements.

Economic Factors

In June 2011, the City Council approved a $1.148 billion budget, which is approximately a 3.1% increase from the prior year's budget. The fiscal year 2010–11 budget includes $928 million for operations and $220 million for scheduled bond capital improvements. The operations budget decreased by $16 million from the previous year's budget.

The City prepared and adopted a conservative budget that includes additional reductions and reprioritization of services. Mesa's General Fund revenue stream is strongly influenced by both national and regional economic conditions. Nationally, the economy appears to be slowly recovering from a serious and prolonged recession. In Arizona, the distressed real estate market seem to be hampering consumer spending which will likely continue to curtail economic growth in our region during the coming years.

Fiscal year 2011-12 General Fund revenues are projected to decline from the previous fiscal year. As a result of the City departments' continued efforts to increase efficiency and reduce cost, the City experienced expenditure savings that will provide additional resources to offset projected shortfalls for fiscal year 2011-12. A General Fund reduction of $7.4 million and a reduction of 32 full-time equivalent positions were still necessary. The majority of these positions were vacant. For the third consecutive year, the budget reflects no compensation or step increases for employees. However, total compensation-related expenses have increased as a result of increased employer contributions required by the state retirement systems and to the self-administered medical insurance program.

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 Controller, P.O. Box 1466, Mesa, Arizona, 85211-1466.

CITY OF MESA, ARIZONA

EXHIBIT A-1

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Pooled Cash and Investments	$ 225,039,917	$ 55,592,988	$ 280,632,905
Receivables:			
Accounts and Miscellaneous (Net of Allowances)	18,608,736	26,120,802	44,729,538
Accrued Interest	144,381	238,808	383,189
Due From Other Governments	20,290,036	2,492,155	22,782,191
Internal Balances	2,793,835	(2,793,835)	-
Inventory	5,867,894	-	5,867,894
Prepaid Costs	3,618,968	97,932	3,716,900
Deposits	363,733	5,086,651	5,450,384
Restricted Assets:			-
Pooled Cash and Investments	37,953,905	120,001,956	157,955,861
Cash With Trustee	22,490,388	-	22,490,388
Accounts Receivable	9,980,946	-	9,980,946
Due From Other Governments	22,993,869	-	22,993,869
Customer Deposits	-	3,119,315	3,119,315
Unamortized Bond Issue Costs	2,022,914	4,025,440	6,048,354
Investment in Joint Ventures	53,888,931	250,556,816	304,445,747
Capital Assets:			
Non-Depreciable	355,345,830	185,033,654	540,379,484
Depreciable, Net	924,442,901	1,117,347,782	2,041,790,683
Total Assets	1,705,847,184	1,766,920,464	3,472,767,648
LIABILITIES			
Warrants Outstanding	2,341,770	-	2,341,770
Accounts Payable	22,421,123	7,806,679	30,227,802
Other Accrued Expenses	29,424,391	-	29,424,391
Customer and Defendant Deposits	9,042,835	-	9,042,835
Compensated Absences	1,048,067	-	1,048,067
Liabilities Payable From Restricted Assets	44,747,523	60,698,673	105,446,196
Noncurrent Liabilities:			
Due Within One Year	34,585,985	26,837,919	61,423,904
Due in More Than One Year	657,013,257	927,137,360	1,584,150,617
Total Liabilities	800,624,951	1,022,480,631	1,823,105,582
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	872,302,182	430,435,538	1,302,737,720
Restricted For:			
Convention Center	-	272,909	272,909
Airport	-	5,422,074	5,422,074
Golf Courses	-	19,425	19,425
Hohokam Stadium/Fitch Complex	-	359,948	359,948
Court Projects	1,590,834	-	1,590,834
Debt Service	42,831	34,783,136	34,825,967
Bond Indentures	-	14,917,527	14,917,527
Grant Programs	4,343,888	-	4,343,888
Transportation Programs	32,917,156	-	32,917,156
Water, Wastewater & Solid Waste Improvements	-	98,487	98,487
Miscellaneous Programs	401,077	-	401,077
Unrestricted	(6,375,735)	258,130,789	251,755,054
Total Net Assets	$ 905,222,233	$ 744,439,833	$ 1,649,662,066

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, 2011

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	$ 59,551,669	$ 17,109,537	$ 1,777,282	$ -
Public Safety	273,320,156	9,584,232	1,107,338	4,521,268
Cultural-Recreational	54,549,751	9,826,530	697,505	-
Community Environment	106,434,114	8,189,159	61,701,867	26,940,181
Interest on Long-Term Debt	21,078,138	-	-	-
Total Government Activities	514,933,828	44,709,458	65,283,992	31,461,449
Business-type Activities:				
Electric	26,816,560	33,138,456	-	196,343
Gas	36,020,012	41,369,805	15,463	380,514
Water	82,377,888	102,215,430	10,000	5,950,015
Wastewater	63,613,492	59,659,464	-	3,516,496
Solid Waste	31,462,070	47,537,833	-	75,020
Airport	3,971,648	3,317,542	-	505,604
Golf Course	2,679,327	2,250,256	-	50,000
Convention Center	3,849,444	2,825,693	-	-
HohokamStadium/Fitch Complex	8,323,724	6,161,320	-	99,996
Cubs Stadium	14,990	51,614	-	-
District Cooling	964,585	945,434	-	-
Total Business-type Activities	260,093,740	299,472,847	25,463	10,773,988
Total Primary Government	$ 775,027,568	$ 344,182,305	$ 65,309,455	$ 42,235,437

General Revenues:
- Sales Taxes
- Property Taxes
- Occupancy Taxes
- Unrestricted State Shared Revenue
- Contributions Not Restricted to Specific Programs
- Unrestricted Investment Income
- Miscellaneous

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

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

EXHIBIT A-2 (Continued)

Governmental Activities	Business-type Activities	Total
Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
$ (40,664,850)	$ -	$ (40,664,850)
(258,107,318)	-	(258,107,318)
(44,025,716)	-	(44,025,716)
(9,602,907)	-	(9,602,907)
(21,078,138)	-	(21,078,138)
(373,478,929)	-	(373,478,929)
-	6,518,239	6,518,239
-	5,745,770	5,745,770
-	25,797,557	25,797,557
-	(437,532)	(437,532)
-	16,150,783	16,150,783
-	(148,502)	(148,502)
-	(379,071)	(379,071)
-	(1,023,751)	(1,023,751)
-	(2,062,408)	(2,062,408)
-	36,624	36,624
-	(19,151)	(19,151)
-	50,178,558	50,178,558
$ (373,478,929)	$ 50,178,558	$ (323,300,371)
121,046,053	-	121,046,053
14,243,721	-	14,243,721
2,148,216	-	2,148,216
92,612,858	-	92,612,858
15,610,470	-	15,610,470
617,419	839,348	1,456,767
7,060,132	-	7,060,132
83,334,303	(83,334,303)	-
336,673,172	(82,494,955)	254,178,217
(36,805,757)	(32,316,397)	(69,122,154)
942,027,990	776,756,230	1,718,784,220
$ 905,222,233	$ 744,439,833	$ 1,649,662,066

CITY OF MESA, ARIZONA

EXHIBIT A-3

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Pooled Cash and Investments	$ 89,564,715	$ 651	$ 95,419,064	$ 184,984,430
Accounts Receivable (Net of Allowances)	15,396,233	31,390	1,627,766	17,055,389
Accrued Interest Receivable	99,363	-	45,018	144,381
Due From Other Governments	13,814,450	3,403,117	3,054,502	20,272,069
Due From Other Funds	1,915,000	-	-	1,915,000
Prepaid Costs	404,506	-	2,905,610	3,310,116
Deposits	363,733	-	-	363,733
Restricted Assets:				
Pooled Cash and Investments	-	-	37,953,905	37,953,905
Cash With Trustee	-	-	22,490,388	22,490,388
Accounts Receivable	4,332,101	-	5,648,845	9,980,946
Due From Other Governments	-	-	22,993,869	22,993,869
Total Assets	$ 125,890,101	$ 3,435,158	$ 192,138,967	$ 321,464,226
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants Outstanding	$ 2,341,770	$ -	$ -	$ 2,341,770
Accounts Payable	11,619,957	1,519,350	7,731,056	20,870,363
Due To Other Funds	-	1,915,000	-	1,915,000
Customer and Defendant Deposits	3,153,061	25	5,889,749	9,042,835
Compensated Absences	1,048,067	-	-	1,048,067
Payable From Restricted Assets:				
Accrued Lease Interest Payable	-	-	194	194
Accrued Bond Interest Payable	-	-	9,749,172	9,749,172
Accrued Note Interest Payable	-	-	756,250	756,250
Deferred Revenue	6,558,186	-	5,648,845	12,207,031
Matured General Obligation Bonds Payable	-	-	21,675,399	21,675,399
Matured Highway User Rev. Bonds Payable	-	-	6,030,000	6,030,000
Matured Capital Leases Payable	-	-	50,043	50,043
Total Liabilities	24,721,041	3,434,375	57,530,708	85,686,124
Fund Balances				
Nonspendable	404,506	-	2,905,610	3,310,116
Restricted	1,991,911	783	112,537,018	114,529,712
Committed	4,897,687	-	19,165,631	24,063,318
Unassigned	93,874,956	-	-	93,874,956
Total Fund Balances	101,169,060	783	134,608,259	235,778,102
Total Liabilities and Fund Balances	$ 125,890,101	$ 3,435,158	$ 192,138,967	$ 321,464,226

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

CITY OF MESA, ARIZONA
EXHIBIT A-4
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - total governmental funds	$	235,778,102
Amounts reported for governmental activities in the statement of net assets are different because (also see Note 3 to the basic financial statements):		
Capital assets used in governmental activites are not financial resources and therefore not reported in the governmental funds.		1,276,127,429
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		55,911,845
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(685,842,777)
Deferred revenue for long-term rehabilitation loans and special assessments is shown on the governmental funds, but is not deferred on the statement of net assets.		5,720,566
Internal service funds are used by management to charge the costs of certain activites to individual funds.		17,527,068
Net assets of the governmental activities - statement of net assets	$	905,222,233

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, 2011

	General Fund	Highway User Revenue Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Sales Taxes	$ 100,283,750	$ -	$ 20,762,303	$ 121,046,053
Property Taxes	-	-	14,273,796	14,273,796
Occupancy Taxes	2,148,216	-	-	2,148,216
Special Assessments	-	-	1,069,363	1,069,363
Licenses and Permits	9,291,101	-	3,286,325	12,577,426
Intergovernmental	114,387,283	31,852,516	28,541,432	174,781,231
Charges For Services	11,958,110	58,909	8,286,495	20,303,514
Fines and Forfeitures	10,831,835	108,004	880,189	11,820,028
Investment Income	382,535	-	204,264	586,799
Miscellaneous	6,572,075	33,328	811,276	7,416,679
Total Revenues	255,854,905	32,052,757	78,115,443	366,023,105
Expenditures:				
Current:				
General Government	38,843,180	-	-	38,843,180
Public Safety	209,180,440	-	5,985,101	215,165,541
Cultural-Recreational	42,191,344	-	-	42,191,344
Community Environment	11,632,326	25,709,794	31,120,816	68,462,936
Debt Service:				
Principal Retirement	-	-	31,689,924	31,689,924
Interest on Bonds	-	-	19,433,832	19,433,832
Interest on Leases	-	-	201,649	201,649
Interest on Notes	-	-	1,575,694	1,575,694
Service Charges	-	-	9,546	9,546
Cost of Issuance			29,100	29,100
Capital Outlay	16,952,450	9,995	43,210,145	60,172,590
Total Expenditures	318,799,740	25,719,789	133,255,807	477,775,336
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,944,835)	6,332,968	(55,140,364)	(111,752,231)
Other Financing Sources (Uses):				
Transfers In	83,653,918	-	44,410,587	128,064,505
Transfers Out	(26,948,206)	(12,399,242)	(5,070,857)	(44,418,305)
Face Amount of Bonds Issued	-	-	29,320,000	29,320,000
Premium on Issuance of Bonds	-	-	359,932	359,932
Total Other Financing Sources (Uses)	56,705,712	(12,399,242)	69,019,662	113,326,132
Net Change in Fund Balances	(6,239,123)	(6,066,274)	13,879,298	1,573,901
Fund Balances - Beginning, as Restated	107,408,183	6,067,057	120,728,961	234,204,201
Fund Balances - Ending	$ 101,169,060	$ 783	$ 134,608,259	$ 235,778,102

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, 2011

Net change in fund balances - total governmental funds	$	1,573,901
Amounts reported for governmental activities in the statement of activities are different because (also see Note 3 to the basic financial statements):		
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		(822,489)
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.		(52,215,224)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($60,172,590) exceeded depreciation ($55,452,439) in the current period.		4,720,151
The net effect of miscellaneous transactions involving capital assets (e.g., donations, transfers and disposals) is to increase net assets.		11,866,630
Loss on equity in Joint Venture		(3,279,296)
The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes financial resources of governmental funds. Neither transaction has any effect on net assets.		2,369,924
Governmental funds report the effect of bond issuance costs, premiums and deferred amounts related to refunding when the new debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(929,365)
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.		(89,989)
Change in net assets of the governmental activities - statement of activities	$	(36,805,757)

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

CITY OF MESA, ARIZONA
EXHIBIT A-7
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Pooled Cash and Investments	$ 55,592,988	$ 40,055,487
Accounts Receivable (Net of Allowances of $2,615,463)	26,120,802	413,165
Accrued Premiums Receivable	-	1,140,182
Accrued Interest Receivable	238,808	-
Due From Other Governments	2,492,155	17,967
Inventory	-	5,867,894
Prepaid Costs	97,932	308,852
Deposits	5,086,651	-
Restricted Assets:		
Pooled Cash and Investments	51,293,369	-
Customer Deposits	3,119,315	-
Total Current Assets	144,042,020	47,803,547
Noncurrent Assets:		
Restricted Assets:		
Impact & Development Fees:		
Pooled Cash and Investments	98,487	-
Bond Replacement, Extensions and Reserves:		
Pooled Cash and Investments	14,917,527	-
Capital Projects:		
Pooled Cash and Investments	53,692,573	-
Unamortized Bond Issue Costs	4,025,440	-
Total Restricted Assets	72,734,027	-
Capital Assets:		
Land	58,802,555	-
Water Rights	12,760,846	-
Buildings	62,413,552	2,014,156
Other Improvements	174,566,571	4,944,884
Machinery and Equipment	216,413,649	2,133,887
Intangibles	13,683,262	-
Infrastructure	1,201,069,809	-
Construction in Progress	113,470,253	58,997
Less Accumulated Depreciation and Amortization	(550,799,061)	(5,490,622)
Total Capital Assets, Net	1,302,381,436	3,661,302
Investment in Joint Ventures	250,556,816	-
Total Noncurrent Assets	1,625,672,279	3,661,302
Total Assets	$ 1,769,714,299	$ 51,464,849

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

CITY OF MESA, ARIZONA
EXHIBIT A-7 (Continued)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities	Governmental Activities -
	Enterprise Fund	Internal Service Funds
LIABILITIES		
Current Liabilities-Payable From Current Assets:		
Accounts Payable	$ 7,806,679	$ 1,550,760
Other Accrued Expenses	-	29,424,391
Current Liabilities-Payable From Restricted Assets:		
Capital Projects-Accounts Payable	6,284,854	-
Accrued Notes Interest Payable	31,109	-
Accrued Bond Interest Payable	21,576,835	-
Matured Bonds Payable	13,054,601	-
Matured Notes Payable	121,725	-
Customer Deposits and Prepayments	19,629,549	-
Current Portion of Long-term Liabilities:		
Current Portion of Revenue Bonds Payable	24,840,000	-
Current Portion of General Obligation Bonds Payable	679,363	-
Current Portion of Notes Payable	237,489	-
Current Portion of Other Long Term Obligations	116,754	
Current Portion of Compensated Absences	964,313	103,439
Total Current Liabilities	95,343,271	31,078,590
Long-Term Liabilities:		
Revenue Bonds Payable, Net of Deferred Amounts on Refundings	860,154,679	-
General Obligation Bonds Payable	1,530,367	-
Notes Payable	2,493,636	-
Other Long Term Obligations	116,754	
Unamortized Bond Premium	16,008,249	-
Compensated Absences	3,198,954	814,120
Post Employment Benefits	43,634,721	4,838,906
Total Long-Term Liabilities	927,137,360	5,653,026
Total Liabilities	1,022,480,631	36,731,616
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	430,435,538	3,661,302
Restricted For:		
Convention Center	272,909	-
Airport	5,422,074	-
Golf Courses	19,425	-
Hohokam Stadium\Fitch Complex	359,948	-
Debt Service	34,783,136	-
Bond Indentures	14,917,527	-
Water, Wastewater & Solid Waste Improvements	98,487	-
Unrestricted	260,924,624	11,071,931
Total Net Assets	$ 747,233,668	$ 14,733,233
Adjustment to reflect the consolidation of the internal service funds related to the enterprise fund.	(2,793,835)	
Total net assets of the business-type activities	$ 744,439,833	

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

CITY OF MESA, ARIZONA
EXHIBIT A-8
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Operating Revenues:		
Electric Sales Pledged as Security for Revenue Bonds	$ 33,138,456	$ -
Gas Sales Pledged as Security for Revenue Bonds	41,369,805	-
Water Sales Pledged as Security for Revenue Bonds	102,215,430	-
Wastewater Charges Pledged as Security for Revenue Bonds	59,659,464	-
Solid Waste Charges Pledged as Security for Revenue Bonds	47,537,833	-
Airport Fees	3,317,542	-
Golf Course Fees	2,250,256	-
Convention Center Fees	2,825,693	-
Hohokam Stadium/Fitch Complex Fees	6,161,320	-
Cubs Stadium	51,614	-
District Cooling Charges	945,434	-
Charges For Services	-	18,002,284
Self-Insurance Contributions	-	64,329,913
Other	-	66,009
Total Operating Revenues	299,472,847	82,398,206
Operating Expenses:		
Electric	23,455,135	-
Gas	30,306,602	-
Water	43,801,175	-
Wastewater	21,470,703	-
Solid Waste	29,096,080	-
Airport	2,379,968	-
Golf Course	2,335,861	-
Convention Center	3,807,523	-
Hohokam Stadium/Fitch Complex	7,673,706	-
Cubs Stadium	14,990	-
District Cooling	567,143	-
Warehouse, Maintenance & Services	-	19,267,484
Self-Insurance	-	63,495,689
Total Operating Expenses	164,908,886	82,763,173
Operating Income (Loss) Before Depreciation and Amortization	134,563,961	(364,967)
Depreciation and Amortization	(45,215,543)	(386,538)
Operating Income (Loss)	89,348,418	(751,505)

(Continued)

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

CITY OF MESA, ARIZONA
EXHIBIT A-8 (Continued)
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Nonoperating Revenues (Expenses):		
Investment Income Pledged as Security for Revenue Bonds	828,608	-
Investment Income Unpledged	10,740	39,110
Intergovernmental	25,463	-
Interest Expense:		
Revenue Bonds	(36,711,130)	-
General Obligation Bonds	(129,439)	-
Notes Payable	(58,659)	-
Other Long Term Obligations	(28,978)	
Amortization of Bond Issuance and Administrative Costs	(280,107)	-
Gain (Loss) on Disposal of Capital Assets	166,504	(4)
Equity Interest in Joint Ventures	(12,273,892)	-
Total Nonoperating Revenues (Expenses)	(48,450,890)	39,106
Income (Loss) before Transfers and Capital Contributions	40,897,528	(712,399)
Capital Contributions	11,054,685	-
Transfers Out	(83,615,000)	(31,200)
Change in Net Assets	(31,662,787)	(743,599)
Total Net Assets - Beginning, as Restated	778,896,455	15,476,832
Total Net Assets - Ending	$ 747,233,668	$ 14,733,233
Adjustment to reflect consolidation of internal service funds related to the enterprise fund.	(653,610)	
Change in net assets of the business-type activities	$ (32,316,397)	

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, 2011

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Funds
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 296,624,919	$ -
Cash Received From Users	5,672,569	82,102,123
Cash Payments to Suppliers	(98,559,747)	(72,672,727)
Cash Payments to Employees	(52,088,451)	(8,194,210)
Net Cash Provided By Operating Activities	151,649,290	1,235,186
Cash Flows From Noncapital Financing Activities:		
Intergovernmental	25,463	-
Investment in Joint Ventures	(5,243,277)	-
Transfers Out to Other Funds	(83,615,000)	(31,200)
Net Cash Used For Noncapital Financing Activities	(88,832,814)	(31,200)
Cash Flows From Capital and Related Financing Activities:		
Proceeds From Bond Sales	54,801,871	-
Proceeds From Other Long-Term Obligations	350,263	-
Acquisition and Construction of Capital Assets	(46,650,866)	(65,334)
Proceeds From Sale of Capital Assets	544,987	-
Principal Paid on Bonds, Leases and Notes Maturities	(11,095,343)	-
Interest Paid on Bonds, Leases and Notes	(41,849,536)	-
Capital Contributed by Other Governments	3,294,629	-
Capital Contributed by Subdividers	3,966,289	-
Net Cash Used For Capital and Related Financing Activities	(36,637,706)	(65,334)
Cash Flows From Investing Activities:		
Interest Received on Investments	648,025	59,770
Net Cash Provided By Investing Activities	648,025	59,770
Net Increase in Pooled Cash and Investments	26,826,795	1,198,422
Pooled Cash and Investments at Beginning of Year	148,768,149	38,857,065
Pooled Cash and Investments at End of Year	$ 175,594,944	$ 40,055,487

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, 2011

	Business-type Activities Enterprise Fund	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income (Loss)	$ 89,348,418	$ (751,505)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	45,215,543	386,538
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	2,824,641	(296,083)
Decrease in Inventory	-	96,470
Decrease in Deposits and Prepaid Costs	1,769,921	87,529
Increase in Accounts Payable	12,490,767	10,613
Increase in Other Accrued Expense	-	1,701,624
Total Adjustments	62,300,872	1,986,691
Net Cash Provided By Operating Activities	$ 151,649,290	$ 1,235,186
Noncash Transactions Affecting Financial Position:		
Contributions of Capital Assets	$ 3,513,069	$ -
Transfers of Capital Assets from Governmental Funds	280,697	-
Loss on Disposal of Capital Assets	(378,483)	(4)
Amortization of Bond Premium	2,166,452	-
Amortization of Debt Issuance Costs	(280,107)	-
Amortization of Deferred Amounts on Refundings	1,773,546	-

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, 2011

	Payroll Agency
ASSETS	
Pooled Cash and Investments	$ 11,499,861
Total Assets	$ 11,499,861
LIABILITIES	
Accrued Payroll Payable	$ 11,499,861
Total Liabilities	$ 11,499,861

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

The City of Mesa, Arizona, (the "City") was incorporated July 5, 1883 with an approximate population of 300 and an area of one square mile. Today, the City's estimated population is 440,677 within an area of approximately 137 square miles. The City's charter was adopted August 18, 1967 providing for a Council-Manager form of government. The City provides a full range of municipal services including police and fire protection, parks and recreation, library, transportation, health and certain social services and general administration. In addition, the City owns and operates an enterprise whose activities include operations of electricity, gas, water, wastewater, solid waste, airport, golf courses, convention center, stadium and district cooling.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 54-*Fund Balance Reporting and Governmental Fund Type Definitions.* This statement changed the previous reporting of Reserved and Unreserved fund balance to five new classifications, which are Nonspendable, Restricted, Committed, Assigned and Unassigned. This statement also added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types.

As a result of implementing GASB Statement No. 54, a new Special Revenue Fund was created for the Local Streets Sales Tax revenues and expenditures that were previously reported in the General Fund. In addition, the Vehicle Replacement and the Regional Transportation Plan Special Revenue Funds were moved to the Capital Projects Funds. The Public Art Special Revenue Fund was dissolved and the fund balance was moved to the General Fund. It was determined that property tax revenues and the court construction fees should be reported in the General Obligation Debt Service Fund. The July 1, 2010 beginning fund balances of the General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds have been restated to reflect these changes. (See note 2 – Restatement of Beginning Fund Balances/Net Assets).

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

a. <u>Reporting Entity</u>

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

City of Mesa Municipal Development Corporation is a nonprofit corporation that is organized under the laws of the State of Arizona to assist the City in the acquisition and

(Continued)

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

b. **Jointly Governed Organizations**

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

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

Arizona Municipal Water Users Association ("AMWUA") is a nonprofit corporation established and funded by cities in Maricopa County for the development of an urban water policy and to represent the cities' interests before the Arizona legislature. The City's annual membership fee for this fiscal year was approximately $173,775. In addition, AMWUA contracts with the cities jointly using a multi-city sanitary sewer system to perform certain accounting, administrative and support services (see Note 13).

c. **Basic Financial Statements**

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. Certain charges between the Enterprise Fund's utility systems and the various functional activities are

(Continued)

not eliminated, as this would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

(Continued)

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 deferred revenue. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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

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

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

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation

(Continued)

is presented on the page following each governmental fund financial statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliations are also provided in Note 2.

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

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

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

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

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

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

(Continued)

e. **Fund Accounting**

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

The City reports the following major governmental funds:

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

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

The City reports the following non-major governmental funds:

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

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

Eight 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.

(Continued)

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. **Pooled Cash and Investments**

The City maintains an invested pool that is available for use by all City funds. Each funds portion of this pool is reported on the financial statements as "pooled cash and investments".

A single master custodian holds all assets of the invested pool. In addition, certain cash deposits and investments are also held separately by various City funds in separate accounts.

At year-end, City cash totaled $23,266,077 which includes $219,040 of petty cash. The carrying amount of the City's deposits was $23,047,037 and the bank balance was $21,012,963. The entire balance was covered by federal depository insurance. The difference of $2,034,074 represents deposits in transits, outstanding checks and other reconciling items.

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

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

Credit Risk. The City's Policy is consistent with the City Charter which authorizes the investment of City funds in accordance with Arizona Revised Statute §35-313. These investments include obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool is overseen according to Arizona State Statute by the State Board of Deposit. The fair value of each share as of June 30, 2011, is equal to $1.00. The State Treasurer's Investment Pool #7 that the City participates in does not receive a credit quality rating.

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

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The City's investments that are reflected in the financial statements as cash total $345,486,859.

(Continued)

The City's investments at June 30, 2011 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-2	More than 2	Concentration of Credit Risk %
U.S. Treasuries	$ 54,078,674	$ 16,166,504	$ 36,288,923	$ 1,623,247	52.09 %
U.S. Agencies:					
Federal Home Loan Bank	7,830,944			7,830,944	7.54
Federal Home Loan Mortgage Corp.	13,499,996		13,499,996		13.00
Federal National Mortgage Assn	24,863,455	5,492,195	7,114,607	12,256,653	23.95
City of Mesa Special Improvement District Bonds	3,553,010	335,000	335,000	2,883,010	3.42
Total	$ 103,826,079	$ 21,993,699	$ 57,238,526	$ 24,593,854	100.00 %

None of these Investments are callable.

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

Cash on Hand	$ 219,040
Carrying Amount of City Deposits	23,047,037
Investments in Local Govt Invest Pool	242,341,350
Repurchase Agreement	80,655,121
Cash with Trustee	22,490,388
Long-Term Investments	103,826,079
Total Pooled Cash and Investments	$ 472,579,015

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 2010-11 of $360,591. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

(Continued)

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

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

Fund	Receivables	Allowance	Net
Governmental Activities:			
General Fund:			
Taxes	$ 11,013,266	$ (1,535,000)	$ 9,478,266
Courts	52,306,410	(48,573,919)	3,732,491
Other Customers	3,233,381	(1,047,905)	2,185,476
Restricted	4,332,101	-	4,332,101
Due from Other Governments			
State Shared Revenues	7,350,213	-	7,350,213
Other	6,464,237	-	6,464,237
Highway User Revenue Fund:			
Customers	31,390	-	31,390
Due from Other Governments:	3,403,117	-	3,403,117
Non-Major Governmental Funds:			
Taxes	1,582,635	-	1,582,635
Other Customers	45,131	-	45,131
Restricted-Spec. Assessments	5,246,412	-	5,246,412
Restricted-Property Taxes	402,433		402,433
Due from Other Governments	3,054,502	-	3,054,502
Restricted-Due from Other Governments	22,993,869	-	22,993,869
Internal Service Funds			
Customers	1,553,347	-	1,553,347
Due from Other Governments	17,967	-	17,967
Total Governmental Activities	$ 123,030,411	$ (51,156,824)	$ 71,873,587
Business-Type Activities:			
Utility Customers	$ 26,932,286	$ (2,438,203)	$ 24,494,083
Other Customers	1,803,979	(177,260)	1,626,719
Due from Other Governments	2,492,155	-	2,492,155
Total Business-type Activities	$ 31,228,420	$ (2,615,463)	$ 28,612,957

h. **Deferred Revenue**

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

(Continued)

Rehabilitation Revolving Loans not yet due (General Fund)	$ 71,721
Surcharges included in Court Receivables (General Fund)	4,260,277
Grants received prior to meeting all eligibility requirements (General Fund)	2,226,188
Delinquent Property Taxes (Debt Service Fund)	402,433
Special assessments not yet due (Debt Service Fund)	5,246,412
Total deferred revenue for governmental funds	$ 12,207,031

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

The following interfund activities are included in the fund financial statements at June 30, 2011:

Fund	Interfund Receivables	Interfund Payables
Governmental funds:		
General Fund	$ 1,915,000	$ -
Highway User Revenue Fund	-	1,915,000
Total Governmental funds	$ 1,915,000	$ 1,915,000

The interfund balances at June 30, 2011 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2011 are expected to be repaid within one year.

The net transfers of $83,334,303 from business-type activities to governmental activities on the government-wide statement of activities are primarily operational subsidies from the Enterprise Fund to the General Fund and capital assets with a book value of $280,697 that were transferred between governmental and business-type activities. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2011:

Fund	Transfers Out	Transfers In
Governmental funds:		
General Fund	$ 26,948,206	83,653,918
Highway User Revenue Fund	12,399,242	-
Non-major Governmental Funds	5,070,857	44,410,587
Total governmental funds	44,418,305	128,064,505
Proprietary funds:		
Enterprise Fund	83,615,000	-
Internal Service Funds	31,200	-
Total	$ 128,064,505	$ 128,064,505

(Continued)

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

j. **Inventory**

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

k. **Unbilled Accounts Receivable**

Unbilled utility service receivables are recorded in the year in which the services are provided. At June 30, 2011, unbilled utility service receivables are recorded in the Enterprise Fund as follows:

Electric	$	1,220,844
Gas		987,627
Water		4,929,726
Wastewater		2,080,649
Solid Waste		1,607,435
	$	10,826,281

l. **Capital Assets**

Capital assets, including infrastructure (streets, sidewalks, street lighting, storm drainage and other assets that are immovable and of value only to the City) are defined as assets with an initial cost of $5,000 or more and an estimated useful life of more than one year. Intangible assets for the City include goodwill, right of way, easements and computer software. The City has elected to capitalize software with an initial cost of $100,000 or more. All capital assets, whether owned by governmental activities or business-type activities are required to be recorded and depreciated in the government-wide financial statements. Capital assets with a value of $280,697, net of accumulated depreciation, were transferred to the business-type activities.

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

Prior to June 30, 1978, the City did not maintain detailed property cost records of its capital assets other than for rolling stock. A physical inventory was performed during the fiscal year ended June 30, 1978 and detailed property records were prepared. Generally, the assets were

(Continued)

recorded at cost. Where historical cost information was not available, the assets were valued at estimated cost using engineering estimates, appraisals or current replacement cost, adjusted to the year of acquisition.

The City has made various class changes to both the government-wide and business-type capital asset classifications during fiscal year 2010–11 in preparation for the implementation of fully integrated ERP system expected to go live in fiscal year 2012. The changes did not affect the overall capital asset cost.

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

The estimated useful lives are as follows:

Buildings	15-50 Years
Other Improvements	10-50 Years
Machinery and Equipment	3-30 Years
Intangibles	3-99 Years
Infrastructure	10-99 Years

(Continued)

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2011 follows:

	Balance July 1, 2010, as Restated	Additions	Retirements	Class Change and Transfers	Balance June 30, 2011
Governmental Activities:					
Non-depreciable Assets:					
Land	$ 261,770,684	$ 4,371,159	$ -	$ (338,387)	$ 265,803,456
Construction-in-Progress	138,554,539	58,963,357	(107,975,522)	-	89,542,374
Total Non-depreciable Assets	400,325,223	63,334,516	(107,975,522)	(338,387)	355,345,830
Depreciable Assets:					
Buildings	305,264,399	3,788,104	(2,491,510)	(5,948,218)	300,612,775
Other Improvements	141,877,230	86,728,960	(1,486,440)	(11,684,721)	215,435,029
Machinery & Equipment	163,298,576	5,304,067	(19,139,424)	(9,397,059)	140,066,160
Intangibles	150,107	26,471	-	-	176,578
Infrastructure	775,313,923	17,579,936	(91,645)	27,086,819	819,889,033
Total Depreciable Assets	1,385,904,235	113,427,538	(23,209,019)	56,821	1,476,179,575
Less Accumulated Depreciation for:					
Buildings	(66,036,014)	(5,391,114)	749,615	2,919,668	(67,757,845)
Other Improvements	(58,887,632)	(10,044,730)	1,168,221	(465,682)	(68,229,823)
Machinery & Equipment	(114,907,406)	(13,787,977)	19,098,593	14,414,771	(95,182,019)
Intangibles	(134,590)	(27,950)	-	-	(162,540)
Infrastructure	(276,972,002)	(26,587,206)	22,649	(16,867,888)	(320,404,447)
Total Accum. Depreciation	(516,937,644)	(55,838,977)	21,039,078	869	(551,736,674)
Total Depreciable Assets, net	868,966,591	57,588,561	(2,169,941)	57,690	924,442,901
Governmental Activities Capital Assets, net	$ 1,269,291,814	$ 120,923,077	$ (110,145,463)	$ (280,697)	$ 1,279,788,731

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

General Government	$ 9,770,951
Public Safety	10,745,368
Cultural - Recreational	6,309,539
Community Environment	28,626,581
Capital assets held by the City's Internal Service funds are charged to the various functions based on their usage of the assets	386,538
Total Depreciation	$ 55,838,977

(Continued)

	Balance July 1, 2010, as Restated	Additions	Retirements	Class Change and Transfers	Balance June 30, 2011
Business-type Activities:					
Non-depreciable Assets:					
Land	$ 59,946,543	$ -	$ (1,143,988)	$ -	$ 58,802,555
Water Rights	17,569,867	-	(4,809,021)	-	12,760,846
Construction-in-Progress	118,158,260	52,082,036	(56,770,043)	-	113,470,253
Total Non-depreciable Assets	195,674,670	52,082,036	(62,723,052)	-	185,033,654
Depreciable Assets:					
Buildings	92,701,747	5,222,139	-	(35,510,334)	62,413,552
Other Improvements	1,363,453,007	7,437,283	(1,009,858)	(1,195,313,861)	174,566,571
Machinery & Equipment	131,049,353	49,083,121	(8,628,344)	44,909,519	216,413,649
Intangibles	13,564,978	118,284	-	-	13,683,262
Infrastructure	7,145,836	8,331,205	(603,474)	1,186,196,242	1,201,069,809
Total Depreciable Assets	1,607,914,921	70,192,032	(10,241,676)	281,566	1,668,146,843
Less Accum. Depr. & Amort. for:					
Buildings	(32,435,782)	(2,126,172)	-	8,678,013	(25,883,941)
Other Improvements	(393,832,588)	(6,506,889)	2,706,002	356,971,477	(40,661,998)
Machinery & Equipment	(77,787,873)	(22,050,851)	4,825,130	7,112,367	(87,901,227)
Intangibles	(9,345,594)	(417,417)	-	-	(9,763,011)
Infrastructure	(266,650)	(14,114,214)	554,706	(372,762,726)	(386,588,884)
Total Accum. Depr. & Amort.	(513,668,487)	(45,215,543)	8,085,838	(869)	(550,799,061)
Total Depreciable Assets, net	1,094,246,434	24,976,489	(2,155,838)	280,697	1,117,347,782
Business-type Activities Capital Assets, net	$ 1,289,921,104	$ 77,058,525	$ (64,878,890)	$ 280,697	$ 1,302,381,436

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

Electric	$ 2,982,802
Gas	3,037,528
Water	19,681,747
Wastewater	14,316,638
Solid Waste	2,292,728
Airport	1,577,362
Golf Course	262,787
Convention Center	18,180
Stadium	648,329
District Cooling	397,442
Total Depreciation and Amortization	$ 45,215,543

(Continued)

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

Governmental Activities		Construction in Progress		Commitments
General Government	$	7,593,657	$	302,213
Public Safety		34,965,178		6,717,127
Cultural-Recreational		12,048,648		388,910
Community Environmental		34,875,894		9,113,532
Warehouse, Maintenance & Services		58,997		22,363
Total	$	89,542,374	$	16,544,145
Business-type Activities				
Electric	$	19,226,906	$	2,591,896
Gas		12,525,806		1,118,685
Water		65,533,776		14,192,125
Wastewater		8,229,124		3,214,103
Solid Waste		1,078,181		1,090,904
Airport		3,884,520		53,694
Golf Course		29,374		7
Convention Center		1,083,077		1
Stadium		254,395		18,500
Hohokam		1,134,434		59
District Cooling		490,660		28,428
Total	$	113,470,253	$	22,308,402

m. **Capitalization of Interest**

For the year ended June 30, 2011, the City capitalized net interest costs of $5,675,166 (interest expense of $5,710,498 reduced by interest income of $35,332 in the Business-type Activities Enterprise Fund). Total interest expense and income in the Business-type Activities Enterprise Fund before capitalization was $42,638,704 and $874,680 respectively.

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

The Property and Public Liability, Workers' Compensation and Employee Benefits Internal Service Funds have been established to account for the costs of claims incurred by the City under self-insurance programs. The City is fully self-insured for all public liability risks, up to a maximum of $3,000,000 per occurrence, for the current policy year under the Property

(Continued)

and Public Liability Insurance program. In addition, the City carries full property insurance with a $50,000 per occurrence deductible. Under the Workers' Compensation Program, the City is subject to a maximum deductible of $1,000,000 liability per occurrence. In the Employee Benefits Fund, the City has excess insurance coverage when an individual's claims exceed $175,000 per contract year. There were no changes in insurance coverage during this fiscal year for any of the three Self-Insurance Funds.

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

The stop loss receivable balance for the Workers' Compensation Fund at June 30, 2011 is $293,588. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $507,901 with $287,911 received this current fiscal year. The Property and Public Liability Fund does not have a stop loss receivable at June 30, 2011, and the Fund has not received any settlements in excess of insurance coverage over the past three fiscal years. The stop loss receivable for the Employee Benefits Fund at June 30, 2011 is $119,577. Over the past three fiscal years the Fund has received settlements in excess of insurance coverage of $3,123,571 with $2,611,967 received this current fiscal year.

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

	Property & Public Liability	Workers' Compensation	Employee Benefits	Total
Unpaid Claims, 6/30/09	$ 23,500,000	$ 6,962,630	$ 3,793,067	$ 34,255,697
Adjustments to Reserves-FY 09-10	768,233	3,711,902	50,014,525	54,494,660
Claim Payments-FY 09-10	(6,632,233)	(2,953,506)	(50,076,301)	(59,662,040)
Unpaid Claims, 6/30/10	$ 17,636,000	$ 7,721,026	$ 3,731,291	$ 29,088,317
Adjustments to Reserves-FY 10-11	$ 545,129	$ 6,876,420	$ 51,013,683	$ 58,435,232
Claim Payments-FY 10-11	(3,540,129)	(3,127,828)	(51,431,201)	(58,099,158)
Unpaid Claims, 6/30/11	$ 14,641,000	$ 11,469,618	$ 3,313,773	$ 29,424,391

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

(Continued)

o. **Compensated Absences**

The current portion of governmental funds accrued vacation and sick leave benefits payable are included as a liability in the fund financial statements. The entire amount of accumulated unpaid vested vacation pay and an estimated amount for sick leave related to the proprietary funds is included as a liability in the fund financial statements. The remaining long-term balances related to governmental activities are included in the government-wide financial statement (see Note 6 for additional disclosure of long-term balances).

p. **Fund Balance Policies**

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

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

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

(Continued)

As of June 30, 2011 the fund balance details by classification are listed below:

Fund Balances:	General Fund	Highway User Revenue Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid Costs	$ 404,506	$ -	$ 2,905,610	$ 3,310,116
Restricted:				
Debt Service	-	-	45,042,831	45,042,831
Capital Projects	-	-	32,460,114	32,460,114
Streets Projects	-	783	32,892,046	32,892,829
General Government	11,892	-	-	11,892
Public Safety	275,065	-	-	275,065
Cultural-Recreational	114,120	-	-	114,120
Community Environment	-	-	2,142,027	2,142,027
Court	1,590,834	-	-	1,590,834
Committed To:				
General Govt	1,069,197	-	134,273	1,203,470
Cultural-Recreational	539,078	-	2,153,143	2,692,221
Public Safety	2,754,593	-	350,834	3,105,427
Building Safety	478,171	-	-	478,171
Community Environment	12,702	-	6,751,088	6,763,790
Vehicle Replacements	-	-	5,185,807	5,185,807
General Govt Facilities			4,590,486	4,590,486
Other Commitments	43,946	-	-	43,946
Unassigned	93,874,956	-	-	93,874,956
Total Fund Balances	$ 101,169,060	$ 783	$ 134,608,259	$ 235,778,102

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, 2011 as reported in Exhibit B-3 is 21.9% of General Fund expenditures budgeted for fiscal year 2011-2012.

(Continued)

q. **Statement of Cash Flows**

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

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

r. **Budgets and Budgetary Accounting**

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

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

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

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

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

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

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

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments. This limitation restricts the growth of expenditures to a percentage determined

(Continued)

by population and inflation, with certain expenditures excluded from the limitation. The State Economic Estimates Commission determines and publishes, prior to April 1st of each year, the expenditure limitation for the following fiscal year for each governmental unit. Fiscal year 1979-80 is the base year for calculations.

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

Budgeted amounts are as originally adopted by the City Council on June 21, 2010.

s. **Contingency Services**

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

Any balance of a contingency appropriation not used during one fiscal year is available to help finance the following year's budget. The contingency applications are reflected in the budget basis financial statements for the fiscal year ended June 30, 2011 and are made in accordance with State Statutes.

t. **Property Taxes**

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

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

In fiscal year 2010-11, current property tax collections were $13,889,057 or 97.4% of the tax levy, and were recognized as revenue when received. At fiscal year end, the delinquent property tax is recorded as a receivable. Revenue is recognized for those payments expected to be collected within 60 days and the remaining balance is reported as deferred revenue. The

(Continued)

receivable at 06/30/11 was $843,859 of which $441,426 was recorded as revenue and $402,433 as deferred revenue.

2. RESTATEMENT OF BEGINNING FUND BALANCES /NET ASSETS

a. Governmental Fund Balances

The restatement of beginning fund balances related to the implementation of GASB 54 is as follows:

	General Fund	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Non-Major Capital Project Funds
Fund Balance at 06/30/2010, as Previously Reported	$ 132,934,983	$ 26,332,523	$ 45,338,759	$ 23,530,879
Reclassifications:				
Regional Transportation Plan Fund	$ -	$ (2,867,180)	$ -	2,867,180
Court Construction Fee Fund	-	(382)	382	-
Public Art Fund	17,181	(17,181)	-	-
Street Sales Tax Fund	(25,543,981)	25,543,981	-	-
Vehicle Replacement Fund	-	(4,839,313)	-	4,839,313
Fund Balance at 07/01/2010, as Restated	$ 107,408,183	$ 44,152,448	$ 45,339,141	$ 31,237,372

Property tax revenues were moved to the debt service fund, however no restatement was necessary as all property tax revenues were spent as of 06/30/2010.

b. Governmental Activities, Business Type Activities and Enterprise Fund Net Assets

Beginning net assets of the Business-type activities have been restated for an error in calculating joint venture expenses relating to the joint water reclamation plant with the towns of Gilbert and Queen Creek. The adjustment is for the fiscal years ending 06/30/2007 through 06/30/2010. Net assets also have been restated for the bond premiums from the 2009 utility revenue bond sale. These will be amortized over the life of the bond issue. In addition, beginning net assets of the Governmental Activities have been restated for an error in calculating depreciation expense related to a capital lease. The adjustment is for the fiscal years ending June 30, 2009 and June 30, 2010.

(Continued)

The effect on net assets for the Government-wide Statements and the Fund Statements is as follows:

	Governmental Activities	Business-Type Activities	Enterprise Fund
Net Assets at 06/30/10, as Previously Reported	$ 935,383,146	$ 753,530,517	$ 755,670,742
Capitalized Lease Depreciation Adjustment	6,644,844		
Unamortized Premium Adjustment		(407,356)	(407,356)
Joint Venture Adjustment		23,633,069	23,633,069
Net Assets at 07/01/10, as Restated	$ 942,027,990	$ 776,756,230	$ 778,896,455

3. **RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE STATEMENTS**

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

(Continued)

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

	Total Governmental Funds	Long-term Assets/ Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Total
Assets					
Pooled Cash and Investments	$ 184,984,430	$	$ 40,055,487		$ 225,039,917
Accounts Receivable, net	17,055,389		1,553,347		18,608,736
Interest Receivable	144,381				144,381
Due From Other Governments	20,272,069		17,967		20,290,036
Due From Other Funds	1,915,000		2,793,835	(1,915,000)	2,793,835
Inventories			5,867,894		5,867,894
Prepaid Costs	3,310,116		308,852		3,618,968
Deposits	363,733				363,733
Restricted Pooled Cash and Investments	37,953,905				37,953,905
Restricted Cash With Trustee	22,490,388				22,490,388
Restricted Accounts Receivable	9,980,946				9,980,946
Restricted Due From Other Governments	22,993,869				22,993,869
Unamortized Bond Issuance Costs		2,022,914			2,022,914
Investment in Joint Ventures		53,888,931			53,888,931
Capital Assets		1,276,127,429	3,661,302		1,279,788,731
Total Assets	$ 321,464,226	$ 1,332,039,274	$ 54,258,684	$ (1,915,000)	$ 1,705,847,184
Liabilities					
Warrants Outstanding	$ 2,341,770	$	$	$	$ 2,341,770
Accounts Payable	20,870,363		1,550,760		22,421,123
Other Accrued Expenses			29,424,391		29,424,391
Due To Other Funds	1,915,000			(1,915,000)	-
Customer and Defendant Deposits	9,042,835				9,042,835
Compensated Absences	1,048,067				1,048,067
Restricted Lease Interest Payable	194				194
Restricted Bond Interest Payable	9,749,172				9,749,172
Restricted Note Interest Payable	756,250				756,250
Restricted Deferred Revenue	12,207,031	(5,720,566)			6,486,465
Matured G.O. Bonds Payable	21,675,399				21,675,399
Matured HURF Bonds Payable	6,030,000				6,030,000
Matured Capital Leases Payable	50,043				50,043
Long-term Liabilities		685,842,777	5,756,465		691,599,242
Total Liabilities	85,686,124	680,122,211	36,731,616	(1,915,000)	800,624,951
Fund Balance/Net Assets					
Total Fund Balance/Net Assets	235,778,102	651,917,063	17,527,068	-	905,222,233
Total Liabilities and Fund Balance/Net Assets	$ 321,464,226	$ 1,332,039,274	$ 54,258,684	$ (1,915,000)	$ 1,705,847,184

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

(Continued)

Costs of capital assets	$1,822,373,488
Accumulated depreciation	(546,246,059)
	$1,276,127,429

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

Investment in joint ventures	$ 53,888,931

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

Unamortized bond issuance costs	$ 2,022,914

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	$ 411,406,859
Notes payable	45,000,000
Capital leases	2,165,596
Compensated absences	16,376,719
Post employment benefits	203,548,142
Unamortized bond premiums	7,345,461
	$ 685,842,777

Deferred revenue for the long-term special assessment receivables, property tax receivables and for the rehabilitation loan program shown on the governmental fund statements is not deferred on the statement of net assets.

Deferred property tax revenues	402,433
Deferred special assessment revenue	$ 5,246,412
Deferred rehabilitation loan revenue	71,721
	$ 5,720,566

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

Total	$ 17,527,068

(Continued)

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

	Total Governmental Funds	Long-term Revenues/ Expenses (1)	Capital-Related Items (2)	Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations and Adjustments (5)	Statement of Activities
Revenues and Other Sources							
Taxes	$ 121,046,053	$	$	$	$	$	$ 121,046,053
Property Taxes	14,273,796	(30,075)					14,243,721
Occupancy Taxes	2,148,216						2,148,216
Special Assessments	1,069,363	(783,885)					285,478
Licenses and Permits	12,577,426						12,577,426
Intergovernmental	174,781,231	(8,529)					174,772,702
Charges for Services	20,303,514						20,303,514
Contributions				15,610,470			15,610,470
Fines and Forfeitures	11,820,028						11,820,028
Investment Income	586,799			39,110			625,909
Miscellaneous	7,416,679			79,962	(436,509)		7,060,132
Other Sources:							
Capital Contributions			14,300,119				14,300,119
Transfers In	128,064,505			(31,200)		(44,410,587)	83,622,718
Face Amount of Bond Sales	29,320,000				(29,320,000)		-
Premiums on Issuance of Bonds	359,932				(359,932)		-
Total Revenues and Other Sources	523,767,542	(822,489)	14,300,119	15,698,342	(30,116,441)	(44,410,587)	478,416,486
Expenditures/Expenses							
Current:							
General Government	38,843,180	6,984,302	11,559,981	2,161,235	2,971		59,551,669
Public Safety	215,165,541	36,476,684	10,774,473	10,858,125	45,333		273,320,156
Cultural-Recreational	42,191,344	4,598,927	6,434,285	1,289,198	35,998		54,549,752
Community Environment	68,462,936	4,164,857	32,115,788	1,479,773	210,761		106,434,115
Debt Service:							
Principal Payments	31,689,924				(31,689,924)		-
Interest on Bonds	19,433,832				(133,039)		19,300,793
Interest on Capital Leases	201,649						201,649
Interest on Notes	1,575,694						1,575,694
Service Charges	9,546	(9,546)					-
Cost of Issuance	29,100				(29,100)		-
Capital Outlay	60,172,590		(60,172,590)				-
Total Expenditures\Expenses	477,775,336	52,215,224	711,937	15,788,331	(31,557,000)	-	514,933,828
Other Financing Uses/ Changes in Net Assets							
Transfers Out	44,418,305		280,697			(44,410,587)	288,415
Total Expenditures\Expenses & Other Financing Uses	522,193,641	52,215,224	992,634	15,788,331	(31,557,000)	(44,410,587)	515,222,243
Net Change for the Year	$ 1,573,901	$ (53,037,713)	$ 13,307,485	$ (89,989)	$ 1,440,559	$ -	$ (36,805,757)

(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	$ (30,075)
Special assessment revenue	(783,885)
Rehabilitation loan revenue	(8,529)
Total	$ (822,489)

(Continued)

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

Accrual of long-term compensated absences	$ 1,321,179
Accrual of post employment benefits	(53,536,405)
Total	$ (52,215,224)

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

Capital outlay for capital assets	$ 58,898,023
Capital outlay for joint venture	1,274,567
Depreciation expense	(55,452,439)
Loss on equity interest for joint venture	(3,279,296)
Total	$ 1,440,855

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

Donation of capital assets	$ 14,300,119
Loss on disposal of capital assets	(2,152,792)
Transfer of capital assets reclassified to transfer in	(280,697)
Total	$ 11,866,630

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

Revenue and other sources	$ 15,729,542
Expenditures and other uses	(15,788,331)
Transfers out to General Fund	(31,200)
Change in net assets	$ (89,989)

(Continued)

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

New debt issued (including refunded debt)	
General Obligation bond proceeds	$ (29,320,000)
Principal repayments	31,689,924
Total	$ 2,369,924

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

Amortization of bond issue costs	$ (265,964)
Amortization of deferred refunding amounts	(1,173,630)
Current year bond premium additions	(796,440)
Amortization of bond premiums	1,306,669
Total	$ (929,365)

(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	$ (44,410,587)
Transfers in	44,410,587
Total	$ -

(Continued)

4. RETIREMENT AND PENSION PLANS

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

Arizona State Retirement System:

a. **Plan Description**

All the City's full-time general employees participate in the Arizona State Retirement System ("System"), a multiple-employer, cost-sharing defined benefit pension plan. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5 of the Arizona Revised Statutes. The System provides for retirement, disability, and death and survivor benefits. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Avenue, Suite 1300, Phoenix, Arizona, 85012 or by calling 1-800-621-3778.

b. **Funding Policy**

Covered employees were required by state statute to contribute 9.85 percent of their salary to the System during fiscal year 2010-11 and the City was required to match it. The Arizona Revised Statutes ("A.R.S.") provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate. The City's contributions to the System for the years ending June 30, 2011, 2010 and 2009 were $13,347,661, $13,134,628 and $13,983,834 respectively, which were equal to the required contributions for each year. The City's employees contributed equal amounts to the System for the same time period.

Elected Officials Retirement Plan:

a. **Plan Description**

The City's Mayor and Councilmembers participate in the Elected Officials Retirement Plan ("EORP") a multiple employer, cost-sharing defined benefit pension plan. The Fund Manager of the Public Safety Personnel Retirement System ("PSPRS") is the administrator

(Continued)

for the EORP that was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. EORP provides retirement benefits as well as death and disability benefits. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona, 85014 or by calling 602-255-5575.

b. **Funding Policy**

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7 percent of their annual covered salary. The employer rate for 2010-11 was 29.79 percent. The City's contributions to EORP for the fiscal years ending June 30, 2011, 2010 and 2009 were $44,454, $39,152 and $42,300 respectively, which were equal to the required contributions for each year. The City's employees contributed $10,446, $10,440 and $10,575, for the same time period.

Public Safety Personnel Retirement System:

a. **Plan Description**

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

b. **Funding Policy**

PSPRS members are required to contribute 7.65 percent of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for 2010-11 was 20.30 (18.77 pension plus 1.53 health care) percent for fire personnel and 21.11 (19.52 pension plus 1.59 health care) percent for police members. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature. (A.R.S. Section 38-843)

(Continued)

c. **Annual Pension Cost**

Police personnel contributed $4,166,854 and fire personnel $2,074,082 during fiscal year 2010-11. For 2011, the City's annual pension cost of $11,498,338 for police and $5,503,772 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.5 percent investment rate of return, (b) projected salary increases of 5.5 percent attributable to inflation, (c) additional projected salary increases ranging from 0.0 percent to 3.0 percent per year, attributable to seniority/merit. The actuarial value of PSPRS assets was determined using the smooth market value method. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over an closed period of 27 years.

d. **Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2010 (Latest actuarial date available) is as follows:

	Police	Fire
Actuarial accrued liability (AAL)	$ 369,998,464	$ 211,840,704
Actuarial value of plan assets	257,026,009	156,842,989
Unfunded actuarial accrued liability (UAAL)	$ 112,972,455	$ 54,997,715
Funded ratio (actuarial value of plan assets/AAL)	69.5%	74.0%
Covered payroll (active plan members)	$ 56,051,165	$ 26,743,003
UAAL as a percentage of covered payroll	201.6%	205.7%

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

(Continued)

e. **Three Year Trend Information for PSPRS**

Police

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 12,653,191	100%	$ -
2010	12,275,544	100	-
2011	11,498,338	100	-

Fire

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 7,206,009	100%	$ -
2010	6,013,620	100	-
2011	5,503,772	100	-

f. **Annual Other Post Employment Benefits Cost**

For 2011 the City’s annual Other Post Employment Benefits (OPEB) cost of $1,030,688 for police and $469,225 for fire was equal to the City’s required contributions. The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

(Continued)

Police

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 1,000,670	100%	$ -
2010	971,065	100	-
2011	1,030,688	100	-

Fire

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 489,195	100%	$ -
2010	477,752	100	-
2011	469,225	100	-

5. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, 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, 2011, approximately 1,505 former employees were eligible for these benefits, an increase of 77 participants from the prior year or a 5.4% 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 10-11 was $66,999,119. A liability of $12,160,364 is accrued in the business type activities financial statements, the remaining $54,838,755 has been accrued in the governmental activities column in the government-wide financial statements.

(Continued)

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 benefits 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, 2010, Membership Consisted of:

Retirees and Beneficiaries Receiving Benefits	1,465
Active Employees	3,495
Total	4,960

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, 2011, the City contributed $13,494,020 to the plan (approximately 70.2 percent of total premiums). Plan members receiving benefits contributed $5,726,367 or approximately 29.8 percent of total premiums.

(Continued)

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, 2011:

Annual Required Contribution	$	83,522,342
Interest on Net OPEB Obligation		8,316,126
Adjusted to Annual Required Contribution		(11,345,329)
Annual OPEB Cost		80,493,139
Contributions Made		13,494,020
Increase in Net OPEB Obligation		66,999,119
Net OPEB Obligation – Beginning of year		185,022,650
Net OPEB Obligation – End of year	$	252,021,769

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, 2009 through 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	$ 65,194,175	$ 9,263,746	14.21%	$ 112,932,659
2010	81,969,756	9,879,765	12.05	185,022,650
2011	80,493,139	13,494,020	16.76	252,021,769

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009 was as follows: (Latest actuarial date available)

Actuarial Value of Plan Assets	$	-
Actuarial Accrued Liability		916,615,559
Unfunded actuarial accrued liability	$	916,615,559
Funded ratio		0%
Covered payroll	$	321,012,148
Unfunded actuarial accrued liability as a percentage of covered payroll		285.5%

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.

(Continued)

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, 2009
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	10.0% in 2010-2011, grading down by 0.5% each year to an ultimate rate of 5.0%
• Dental, Mental Health, Vision	5%
• Retiree contribution increase	Same as medical Trend

Medical Reimbursements

The federal government may provide the City subsidies per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible employees. Any current and future year subsidies are recorded as revenue in the year received and is not recognized as a reduction to the actuarial accrued liability.

(Continued)

6. LONG-TERM OBLIGATIONS

a. Changes in Long-Term Obligations

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

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 273,869,349	$ 29,320,000	(21,675,400)	$ 281,513,949	$ 21,755,637
Highway User Revenue Bonds	134,545,000	-	(6,030,000)	128,515,000	6,390,000
Special Assessment Bonds with Governmental Commitment	6,550,000	-	(744,000)	5,806,000	744,000
Less Deferred Amounts on Refundings	(5,601,720)	-	1,173,630	(4,428,090)	-
Total Bonds Payable	409,362,629	29,320,000	(27,275,770)	411,406,859	28,889,637
Capital Leases	5,406,120	-	(3,240,524)	2,165,596	1,344,046
Highway Project Advancement Notes	45,000,000	-	-	45,000,000	-
Unamortized Premiums	7,855,690	796,440	(1,306,669)	7,345,461	-
Post Employment Benefits	153,548,293	65,883,605	(11,044,850)	208,387,048	-
Compensated Absences	18,552,257	12,948,949	(14,206,928)	17,294,278	4,352,302
Governmental Activities Total	$ 639,724,989	$ 108,948,994	$ (57,074,741)	$ 691,599,242	$ 34,585,985
Business-type Activities:					
Bonds Payable:					
Revenue Bonds	$ 857,435,000	$ 53,950,000	(12,585,000)	$ 898,800,000	$ 24,840,000
General Obligation Bonds	2,690,651	-	(469,600)	2,221,051	679,363
Less Deferred Amounts on Refundings	(15,590,188)	-	1,773,546	(13,816,642)	-
Total Bonds Payable	844,535,463	53,950,000	(11,281,054)	887,204,409	25,519,363
Notes Payable	2,963,780	-	(232,655)	2,731,125	237,489
Unamortized Bond Premiums	16,915,475	1,259,226	(2,166,452)	16,008,249	-
Post Employment Benefits	31,474,357	14,609,534	(2,449,170)	43,634,721	-
Compensated Absences	4,613,127	2,671,482	(3,121,342)	4,163,267	964,313
Other Long-Term Obligations	-	350,263	(116,755)	233,508	116,754
Business-type Activities Total	$ 900,502,202	$ 72,840,505	$ (19,367,428)	$ 953,975,279	$ 26,837,919

(Continued)

b. **Bonds Payable**

At June 30, 2011, long-term bonds payable consisted of:

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

General Obligation Bonds

$24,720,000 2002 general obligation refunding serial bonds, due in annual principal installments ranging from $59,706 to $9,498,229, plus semi-annual interest ranging from 3.75 percent to 5.375 percent through July 1, 2015.	$ 4,959,069
$41,680,611 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $1,461,369 to $10,277,813, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016.	22,109,014
$22,565,000 2003 general obligation serial bonds, due in annual installments ranging from $1,250,000 to $2,315,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	20,065,000
$46,230,300 2004 general obligation refunding serial bonds, due in annual installments ranging from $34,839 to $31,852,800, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2018.	44,489,253
$11,705,000 2005 general obligation serial bonds, due in annual installments ranging from $500,000 to $3,250,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	11,705,000
$9,710,000 2006 general obligation serial bonds, due in annual installments ranging from $135,000 to $4,225,000, plus semi-annual interest ranging from 4.40 percent to 5.0 percent through July 1, 2025.	9,710,000
$25,482,000 2006 general obligation refunding serial bonds, due in annual installments ranging from $143,425 to $11,306,746, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	24,845,461
$15,915,000 2007 general obligation serial bonds due in annual installments ranging from $615,000 to $5,500,000 plus semi-annual interest ranging from 4.125 percent to 6.0 percent through July 1, 2027.	15,915,000
$15,450,000 2008 general obligation serial bonds due in annual installments ranging from $375,000 to $6,675,000 plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2028.	14,300,000
$61,830,000 2009 general obligation serial bonds due in annual installments ranging from $1,750,000 to $10,125,000 plus semi-annual interest ranging from 4.0 percent to 4.625 percent through July 1, 2029.	50,745,000
$30,865,000 2010 general obligation bonds due in annual installments ranging from $1,115,000 to $13,225,000 plus semi-annual interest ranging from 4.75 percent to 5.85 percent through July 1, 2030.	30,865,000

(Continued)

$29,320,000 2011 general obligation serial bonds due in annual installments ranging from $800,000 to $6,825,000 plus semi-annual interest ranging from 2 percent to 4.25 percent through July 1, 2031	$ 29,320,000
Total General Obligation Bonds	**$ 279,027,797**
Deferred amounts on refundings	2,486,152
Bonds not including deferred amounts on refunding	$ 281,513,949

Street and Highway User Revenue Bonds

$25,800,000 2002 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2002A, 2004 & 2005), due in annual principal installments ranging from $800,000 to $1,000,000, plus semi-annual interest ranging from 5.75 percent to 6.25 percent through July 1, 2012.	$ 1,000,000
$31,985,000 2002 street and highway user revenue refunding bonds, due in annual installments ranging from $40,000 to $6,270,000, plus semi-annual interest ranging from 2.0 percent to 5.0 percent through July 1, 2017.	25,968,147
$26,805,000 2003 street and highway user revenue bonds, due in annual principal installments ranging from $500,000 to $9,750,000, plus semi-annual interest ranging from 4.25 percent to 5.50 percent through July 1, 2022.	25,800,000
$9,585,000 2004 street and highway user revenue bonds (partially refunded by street and highway user revenue refunding bonds, series 2005), due in annual principal installments ranging from $100,000 to $225,000, plus semi-annual interest ranging from 4.00 percent to 5.00 percent through July 1, 2022.	1,375,000
$17,760,000 2004 street and highway user revenue refunding bonds, due in annual installments ranging from $20,000 to $7,250,000, plus semi-annual interest ranging from 3.5 percent to 5.0 percent through July 1, 2018.	17,196,159
$23,800,000 2005 street and highway user revenue refunding bonds, due in annual principal installments ranging from $25,000 to $8,000,000, plus semi-annual interest ranging from 2.75 percent to 5.0 percent through July 1, 2023.	22,858,756
$10,225,000 2005 street and highway user revenue bonds, due in annual principal installments ranging from $50,000 to $8,500,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2024.	10,025,000
$11,675,000 2006 street and highway user revenue bonds, due in annual installments ranging from $850,000 to $9,850,000, plus semi-annual interest ranging from 4.50 percent to 5.25 percent through July 1, 2025.	11,675,000
$10,675,000 2007 street and highway user revenue bonds, due in annual principal installments ranging from $1,000,000 to $3,900,000, plus semi-annual interest ranging from 4.25 percent to 5.0 percent through July 1, 2027.	10,675,000
Total Street and Highway User Revenue Bonds	**$126,573,062**
Deferred amounts on refundings	1,941,938
Total Street and Highway User Revenue Bonds not including deferred amounts on refundings	$128,515,000

(Continued)

Special Assessment Bonds (payable from special assessments levied on the benefited properties)	
$5,025,000 2005 special assessment district bonds, due in annual principal installments of $335,000, plus semi-annual interest of 5.80 percent, through January 1, 2021.	$ 3,350,000
$4,091,840 2007 special assessment district bonds, due in annual principal installments ranging from $408,840 to $410,000, plus semi-annual interest of 5.0 percent, through January 1, 2017.	2,456,000
Total Special Assessment Bonds	**$ 5,806,000**
Total bonds payable recorded in governmental activities	**$411,406,859**

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.	$ 23,027
$1,529,379 2002A general obligation refunding serial bonds, due in annual principal installments ranging from $53,631 to $377,187, plus semi-annual interest ranging from 3.75 percent to 4.20 percent through July 1, 2016. Total bonds outstanding at June 30, 2007, include $54,062 of certificates of ownership of supplemental interest payments and $3,640 of capital appreciation maturing through 2010.	811,148
$214,700 2004 general obligation refunding serial bonds, due in annual principal installments ranging from $35,000 to $32,000,000, plus semi-annual interest ranging from 2.4 percent to 5.0 percent through July 1, 2016.	214,125
$1,168,000 2006 general obligation refunding serial bonds, due in annual principal installments ranging from $6,574 to $518,254, plus semi-annual interest ranging from 4.25 percent to 5.25 percent through July 1, 2014.	1,161,430
Total General Obligation Bonds	**$ 2,209,730**
Deferred amounts on refundings	11,321
Total General Obligation Bonds not including deferred amounts on refunding	$ 2,221,051

Utility Systems Revenue Bonds	
$94,730,000 1997 utility systems revenue serial bonds (partially refunded by 1998, 2002 & 2006 utility systems revenue refunding bonds), due on July 1, 2012, plus semi-annual interest of 7.25 percent through July 1, 2012.	$ 4,000,000
$32,500,000 1998 utility systems revenue refunding serial bonds (partially refunded by 2002A, 2006 and 2008 utility systems revenue refunding bonds), due in annual	

(Continued)

principal installments ranging from $100,000 to $9,105,000, plus semi-annual interest ranging from 4.25 percent to 5.00 percent through July 1, 2013.	$ 18,446
$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.	6,000,000
$129,000,000 2002 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $65,000 to $29,550,000, plus semi-annual interest ranging from 3.40 percent to 5.25 percent through July 1, 2017.	125,416,449
$48,850,000 2002A utility systems revenue refunding serial bonds, due in annual principal installments ranging from $40,000 to $17,890,000, plus semi-annual interest ranging from 3.00 percent to 5.00 percent through July 1, 2017.	45,704,775
$50,470,000 2003 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $970,000 to $25,500,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2022.	23,000,000
$64,625,000 2004 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $1,125,000 to $11,000,000, plus semi-annual interest ranging from 5.00 percent to 6.00 percent through July 1, 2028.	6,125,000
$40,345,000 2004 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $20,000 to $21,010,000, plus semi-annual interest ranging from 3.50 percent to 5.00 percent through July 1, 2019.	38,832,020
$91,200,000 2005 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $750,000 to $24,000,000, plus semi-annual interest ranging from 4.125 percent to 5.0 percent through July 1, 2029.	71,200,000
$105,400,000 2006 utility systems revenue serial bonds, (partially refunded by 2006 (Series 2) utility systems revenue refunding bonds), due in annual principal installments ranging from $8,650,000 to $36,750,000, plus semi-annual interest ranging from 4.375 percent to 5.0 percent through July 1, 2030.	87,325,000
$61,300,000 2006 utility systems revenue refunding serial bonds, due in annual principal installments ranging from $2,075,000 to $18,000,000, plus semi-annual interest ranging from 4.0 percent to 5.0 percent through July 1, 2021.	55,334,720
$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.	120,641,411
$65,550,000 2007 utility systems revenue serial bonds, due in annual principal installments ranging from $2,500,000 to $41,800,000 plus semi-annual interest ranging from 4.25 percent to 6.25 percent through July 1, 2031.	65,550,000
$52,875,000 2008 utility systems revenue serial bonds, due in annual principal installments ranging from $700,000 to $44,675,000 plus semi-annual interest ranging from 4.875 percent to 5.25 percent through July 1, 2032.	52,875,000

(Continued)

$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.	$ 18,741,858
$59,900,000 2009 utility systems revenue serial bonds, due in annual principal installments ranging from $900,000 to $48,250,000 plus semi-annual interest ranging from 5.875 percent to 6.375 percent through July 1, 2033.	59,900,000
$50,380,000 2010 utility systems revenue serial bonds, due in one principal installment plus semi-annual interest 6.10 percent through July 1, 2034.	50,380,000
$53,950,000 2011 utility systems revenue serial bonds, due in one principal installment plus semi-annual interest 5.0 percent through July 1, 2035.	53,950,000
Total Utility Systems Revenue Bonds	**$ 884,994,679**
Deferred amounts on refundings	13,805,321
Total Utility System Revenue Bonds not including deferred amounts on refundings	$ 898,800,000
Total bonds payable recorded in business-type activities	**$ 887,204,409**

The following tables summarize the City's debt service requirements to maturity for its long term bonds payable at June 30, 2011. 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**
2012	$ 21,755,637	$ 12,762,594	$ 34,518,231	2012	$ 6,390,000	$ 6,028,242	$ 12,418,242
2013	22,888,905	11,752,560	34,641,465	2013	6,745,000	5,695,242	12,440,242
2014	15,157,029	10,678,535	25,835,564	2014	7,040,000	5,378,088	12,418,088
2015	12,239,033	10,065,060	22,304,093	2015	7,355,000	5,088,587	12,443,587
2016	13,033,766	9,560,162	22,593,928	2016	7,695,000	4,776,660	12,471,660
2017-21	79,419,579	36,383,013	115,802,592	2017-21	44,165,000	17,959,035	62,124,035
2022-26	56,320,000	22,482,173	78,802,173	2022-26	45,225,000	6,623,750	51,848,750
2026-30	60,700,000	8,364,984	69,064,984	2027-31	3,900,000	165,751	4,065,751
TOTALS	$ 281,513,949	$ 122,049,081	$ 403,563,030	TOTALS	$ 128,515,000	$ 51,715,355	$ 180,230,355

(Continued)

Special Assessment Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 744,000	$ 297,160	$ 1,041,160
2013	744,000	257,280	1,001,280
2014	744,000	217,400	961,400
2015	744,000	177,520	921,520
2016	745,000	137,615	882,615
2017-21	2,085,000	253,125	2,338,125
TOTALS	$ 5,806,000	$ 1,340,100	$ 7,146,100

Business-type Activities

General Obligation Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 679,363	$ 103,843	$ 783,206
2013	706,095	70,521	776,616
2014	357,971	35,722	393,693
2015	210,967	21,061	232,028
2016	81,234	12,356	93,590
2017-21	185,421	16,578	201,999
2022-26	-	-	-
2027-31	-	-	-
2032-35	-	-	-
TOTALS	$ 2,221,051	$ 260,081	$ 2,481,132

Revenue Bonds

Fiscal Year	Principal	Interest	Total
2012	$ 24,840,000	$ 44,646,039	$ 69,486,039
2013	34,030,000	43,316,037	77,346,037
2014	35,595,000	41,681,385	77,276,385
2015	37,595,000	39,860,812	77,455,812
2016	39,340,000	37,956,016	77,296,016
2017-21	163,115,000	162,707,471	325,822,471
2022-26	162,300,000	124,468,669	286,768,669
2027-31	203,230,000	83,270,047	286,500,047
2032-35	198,755,000	28,434,948	227,189,948
TOTALS	$ 898,800,000	$ 606,341,424	$ 1,505,141,424

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, 2011, 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

(Continued)

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, 2011 are $5,806,000.

General Obligation Bonds

The general obligation bonds are backed by the ultimate taxing power and general revenues of the City; however, $2,209,730 of these bonds at June 30, 2011 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, 2011 is:

6% Bonds	$184,531,122
20% Bonds	354,445,979
Total Available	$538,977,101

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, 2011, the amount provided in the Replacement and Extension Funds equaled $14,917,527 which is in compliance with the bond provisions.

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d. **Notes Payable**

Governmental Activities

The City issued $45,000,000 of Highway Project Advancement Notes to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the right-of-way acquisition and for design of highway improvements to State Route 802 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 802. The agreement provides for repayment by ADOT to the City of the full amount of the City advance from monies available to ADOT for the project within a 60-month loan period. The repayments are not secured by any lien upon or pledge of any particular revenues, monies or property of ADOT. No assurance can be given that ADOT will have funds available for repayments due at the times or in the amounts set forth under the agreement.

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.

(Continued)

The following table reflects the annual requirements to amortize all notes outstanding as of June 30, 2011:

	Governmental Activites			Business-type Activities		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest & Fees**	**Total**
2012	$ -	$ 1,512,500	$ 1,512,500	$ 237,489	$ 61,186	$ 298,675
2013	-	1,512,500	1,512,500	122,290	54,714	177,004
2014	-	1,512,500	1,512,500	124,945	52,058	177,003
2015	20,000,000	1,512,500	21,512,500	127,660	49,343	177,003
2016	25,000,000	812,500	25,812,500	130,437	46,567	177,004
2017-2021	-	-	-	696,079	188,939	885,018
2022-2026	-	-	-	775,570	109,448	885,018
2027-2029	-	-	-	516,655	23,611	540,266
TOTALS	$ 45,000,000	$ 6,862,500	$ 51,862,500	$ 2,731,125	$ 585,866	$ 3,316,991

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, 2011.

	Governmental Activities		
Fiscal Year	**Principal**	**Interest**	**Total**
2012	$ 1,344,046	$ 86,367	$ 1,430,413
2013	681,958	34,184	716,142
2014	67,953	6,581	74,534
2015	71,639	2,894	74,533
TOTALS	$ 2,165,596	$ 130,026	$ 2,295,622

(Continued)

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Land	$ -
Buildings	-
Other Improvements	1,363,821
Machinery & Equipment	11,030,807
Infrastructure	1,817,532
Construction Work in Process	1,090,568
Less: Accumulated depreciation	(11,839,707)
Total	$ 25,947,610

f. **Short-term Debt**

The City had no short-term debt activity for the fiscal year ended June 30, 2011.

7. LIABILITIES TO BE PAID FROM ASSETS HELD IN ESCROW

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

In accordance with GASB Statement No. 7, the refunded debt outstanding at June 30, 2011 as reflected below is not included in the City's financial statements.

Utility System Revenue Bond Issue dated April 1, 1997	$ 7,000,000
Utility System Revenue Refunding Bond Issue dated March 1, 1998	5,890,000
Utility System Revenue Bond Issue dated March 1, 1998	13,125,000
Utility System Revenue Bond Issue dated March 1, 2003	25,500,000

(Continued)

Street and Highway User Revenue Bond Issue dated June 1, 2004	$ 8,000,000
Utility System Revenue Bond Issue dated June 1, 2004	58,500,000
Utility System Revenue Bond Issue dated June 1, 2005	20,000,000
Utility System Revenue Bond Issue dated June 1, 2006	18,075,000
Total Refunded Bonds Outstanding	$ 156,090,000

8. CAPITAL CONTRIBUTIONS

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

	Property Owners	Governmental Agencies	Developers	Total
Governmental Activities:				
Federal and State Funds	$ -	$ 17,161,330	$ -	$ 17,161,330
Contributions - Capital Assets	84,668	6,392,696	7,822,755	14,300,119
Total	$ 84,668	$ 23,554,026	$ 7,822,755	$ 31,461,449
Business-type Activities:				
Federal and State Funds	$ -	$ 3,294,629	$ -	$ 3,294,629
Developers - Impact and Development Fees	-	-	3,258,129	3,258,129
Contributions-In-Aid	708,161	-	-	708,161
Contributions - Capital Assets	-	-	3,513,069	3,513,069
Total	$ 708,161	$ 3,294,629	$ 6,771,198	$ 10,773,988

9. COMMITMENTS AND CONTINGENT LIABILITIES

a. <u>Pending Litigation</u>

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

(Continued)

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, 2011, is $5,543,458.

10. ENTERPRISE ACTIVITIES OPERATIONS DETAIL

The Enterprise Fund includes operations of electricity, gas, water, wastewater, solid waste, airport, golf course, convention center, stadiums and district cooling. Although the City's Enterprise Fund does not meet the requirements for disclosing segment information, these services provided by the City are of such significance as to warrant certain additional disclosures. Operating revenue, expenses and operating income loss for the year ended June 30, 2011 for these services are as follows:

(Continued)

Functions	Operating Revenues	Depreciation and Amortization	Other	Operating Income (Loss)
Electric	$ 33,138,456	$ 2,982,802	$ 23,455,135	$ 6,700,519
Gas	41,369,805	3,037,528	30,306,602	8,025,675
Water	102,215,430	19,681,747	43,801,175	38,732,508
Wastewater	59,659,464	14,316,638	21,470,703	23,872,123
Solid Waste	47,537,833	2,292,728	29,096,080	16,149,025
Airport	3,317,542	1,577,362	2,379,968	(639,788)
Golf Course	2,250,256	262,787	2,335,861	(348,392)
Convention Center	2,825,693	18,180	3,807,523	(1,000,010)
Hohokam /Fitch Complex	6,161,320	648,329	7,673,706	(2,160,715)
Cubs Stadium	51,614	-	14,990	36,624
District Cooling	945,434	397,442	567,143	(19,151)
Total	$ 299,472,847	$ 45,215,543	$ 164,908,886	$ 89,348,418

11. NET ASSETS

a. Restricted Net Assets

The government-wide statement of net assets reports $95,169,292 of restricted net assets, of which $32,917,156 is restricted by enabling legislation.

b. Designated Net Assets

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

c. Deficit Net Assets

The deficit in the Property and Public Liability Self-Insurance Fund is the result of the large increases in the estimated liability for claims during prior fiscal years. In addition contributions from the other funds have not increased since fiscal year 2007. A decrease in claims incurred but not reported calculated by the actuarial study resulted in a reduction of the deficit net assets during the fiscal year.

The deficit in the Workers Compensation Self-Insurance Fund was the result of a $1.7 million reduction in contributions to the fund during the year and a $3.6 million increase in liabilities. The

(Continued)

increase in liabilities was due to several adjustments to reported reserve amounts and increase in the number of claims filed and open at fiscal year end.

Contributions from the various funds will need to be increased in future years to cover these deficits.

12. PLEDGED REVENUES

a. Utility System Revenue Bonds

The City has pledged future utility customer revenues, net of specified operating expenses, to repay approximately $1.207 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 2035. Annual principal and interest payments on the bonds were 63 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,505,141,424. Principal and interest paid for the current year and total customer net revenues were $55,398,598 and $93,479,850, respectively.

b. Highway User Revenue Bonds

The City has pledged future Highway User Taxes Revenue to repay $168.3 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 42 percent of eligible revenues. The total principal and interest remaining to be paid on the bonds is $180,230,355. Principal and interest paid for the current year and total highway user tax revenues were $12,395,243 and $32,052,757, respectively.

c. Special Assessment Bonds

The special assessment revenues collected by the City are pledged to repay $9.1 million of special assessment bonds issued since 2005. Proceeds from the bonds are used to finance improvements that property owners have agreed to pay. In the event of default by the property owner, an auction sale may be enforced by the City. If collections and auction proceeds are not sufficient to retire outstanding bonds the City is contingently liable. These bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to be covered 100% with collections from the property owners. The total principal and interest remaining to be paid on the bonds is $7,146,100. Principal and interest paid for the current year and total assessments collected were $1,081,040, and $1,088,465, respectively.

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13. JOINT VENTURES

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

The System has no debt outstanding. Audited summary financial information on the System (GAAP basis) as of and for the fiscal year ended June 30, 2010 (latest information available) is as follows:

Assets	
Equity in Pooled Cash and Investments	$ 39,169,000
Receivables	12,680,000
Inventories at Average Cost	527,000
Capital Assets	923,885,000
Total Assets	976,261,000
Liabilities	43,434,000
Net Assets	$ 932,827,000
Total Revenues	$ 109,318,000
Total Expenses	(87,687,000)
Increase (Decrease) in Net Assets	$ 21,631,000

Separate financial statements for the activity under the Joint Venture agreement can be obtained through the AMWUA office at 3003 N. Central Avenue, Suite 1550, Phoenix, Arizona, 85012.

The City also participates with the City of Phoenix in a water treatment plant. The City of Phoenix is responsible for the planning, budgeting, construction, operation and maintenance of the plant. As lead agency, Phoenix provides all management personnel and financing arrangements. Phoenix and Mesa participate in ownership of the plant and are charged for operating expenses based on gallons of water treated. The City's investment in the joint venture is reflected in the proprietary funds financial statements.

(Continued)

The water treatment plant has no debt outstanding. Audited summary financial information for the plant (GAAP basis) as of and for the fiscal year ended June 30, 2010 (latest information available) is as follows:

Assets		
Equity in Pooled Cash and Investments	$	6,433,000
Receivables		9,816,000
Inventories		348,000
Capital Assets, Net of Accumulated Depreciation		251,282,000
Total Assets		267,879,000
Liabilities		11,850,000
Net Assets	$	256,029,000
Total Revenues	$	54,260,000
Total Expenses		(33,267,000)
Increase in Net Assets	$	20,993,000

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

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

Total investment in the joint venture as of June 30, 2011 is:

Mesa's Share	$ 69,672,048
Gilbert's Share	66,273,146
Queen Creek's Share	28,891,812
Total Joint Venture	$164,837,006

(Continued)

In June 2002, the City agreed to participate in the Central Phoenix/East Valley Light Rail Transit (LRT). The City participates with the cities of Phoenix, Tempe and Glendale. Valley Metro Rail, Inc. (VMR) will design, construct, and operate the LRT project. A total of $53,057,069 has been spent on this project through the fiscal year ended June 30, 2011. The City has received $43.5 million of funding from the Federal Transit Administration (FTA); Congestion Mitigation Air Quality (DMAQ) and Public Transit Funds (PTF) related to this project. The City's investment in the joint venture is reflected in the governmental activities column on the government-wide financial statements.

Audited summary financial information on the system (GAAP basis), as of and for the fiscal year ended June 30, 2010, (latest information available) is as follows:

Assets		
Current Assets	$	102,712,169
Non Current Assets		1,213,821,644
Total Assets		1,316,533,813
Liabilities		137,801,285
Net Assets	$	1,178,732,528
Total Revenues	$	183,482,980
Total Expenses		(192,607,118)
Decrease in Net Assets	$	(9,124,138)

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

In March 2010, the Mesa City Council approved a 3 mile extension of the LRT system and in August 2010, the Federal Transit Administration approved the alignment for project development as the next step toward federal funding. The extension begins at the eastern limits of METRO's existing light rail system (Sycamore) and extends east on Main Street to Mesa Drive. The entire extension is within the City of Mesa. There are four stations on Main Street including a station at Alma School Road, Country Club Drive, Center Street, and Mesa Drive.

The extension is planned to open in 2016 with ridership estimated at approximately 4,750 riders per day. The total capital cost of the project is $198.5 million to be funded with a combination of federal and regional funds.

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In August 2008, the City of Mesa, the City of Apache Junction, Apache Junction Fire District the Town of Gilbert, and the Town of Queen Creek (the Parties) entered into an intergovernmental agreement to plan, design, construct, operate, maintain and finance the TOPAZ Regional Wireless Cooperative Network (Trunked Open Arizona Network – 700/800 MHz Network procured and built by the City of Mesa). 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 subscriber units (radio counts). The City's investment in the joint venture is reflected in the governmental funds financial statements. Separate financial statements are not prepared.
Total investment in the joint venture as of June 30, 2011 is:

City of Mesa	$ 831,862
Town of Gilbert	224,785
City of Apache Junction	48,687
Apache Junction Fire District	23,063
Town of Queen Creek	8,387
Total Joint Venture	$ 1,136,784

14. SUBSEQUENT EVENTS

On October 12, 2011 the City issued $77,835,000 of Highway Project Advancement Notes to provide funds to the Arizona Department of Transportation (ADOT) for the acceleration of the construction of State Route 24 between State Route 202L and Ellsworth Road. The bonds mature on July 1, 2021 and the total interest is $30,421,148. 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 of ADOT to the City of the full amount of the City advance from monies available to ADOT for the project within a 60-month loan period. The repayments are not secured by any lien upon or pledge of any particular revenues, monies or property of ADOT. No assurance can be given that ADOT will have funds available for repayments due at the times or in the amounts set forth under the agreement.

(Concluded)

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FORM OF APPROVING LEGAL OPINION

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Phoenix-Mesa Gateway Airport Authority
Mesa, Arizona

Re: Phoenix-Mesa Gateway Airport Authority
Special Facility Revenue Bonds (Mesa Project),
Series 2012

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, issuance and sale, and the initial delivery on the date hereof, by the Phoenix-Mesa Gateway Airport Authority (the “Authority”) of its $19,220,000 Special Facility Revenue Bonds (Mesa Project), Series 2012 (the “Series 2012 Bonds”). In connection with our engagement as bond counsel, we have examined the law and such documents and matters as we have deemed necessary to render this opinion.

The Series 2012 Bonds are issued pursuant to Arizona Revised Statutes, Section 28-8530, a Trust Agreement, dated as of February 1, 2012 (the “Trust Agreement”), between the Authority and U.S. Bank National Association, as Trustee (the “Trustee”), a resolution of the Authority authorizing the issuance and sale of the Series 2012 Bonds (the “Authority Resolution”) and a resolution (the “City Resolution”) of the Mayor and Council of the City of Mesa, Arizona (the “City”) authorizing the execution of the Trust Agreement and a Property and Special Facility Lease Agreement, dated as of February 1, 2012, between the Authority and the City (the “Lease”). Under the Lease, the Authority will lease to the City certain real property (the “Project Site”), including a maintenance, repair and overhaul facility and certain other improvements (the “Special Facility”) located on the Project Site. The City will pay the Authority lease payments pursuant to the Lease for use of the Special Facility and the Project Site (the “Lease Revenues”).

Pursuant to the Trust Agreement, the Authority has made certain covenants to pay the principal of, premium, if any, and interest on the Series 2012 Bonds, as well as other payments when due from the Lease Revenues. The Authority has pledged and assigned its rights in and to the Lease and the Lease Revenues (except certain rights to indemnification, reimbursements and administrative fees) as security for the Series 2012 Bonds. The Series 2012 Bonds are payable from and secured by a pledge of and lien on the Lease Revenues pursuant to the Trust Agreement. Pursuant to the Lease, the City has pledged its Excise Taxes (as defined in the Lease) to the payment of that portion of the Lease Revenues designated as Base Rent. The City’s pledge of Excise Taxes is subordinate to the pledge thereof on the City’s outstanding Senior Lien Obligations (as defined in the Lease) and any Parity Senior Lien Obligations (as defined in the Lease) hereafter issued or incurred.

Regarding questions of fact material to our opinion, we have relied on representations of the Authority and the City contained in the Trust Agreement and the Lease, and the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on behalf of the Authority and the City, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of opinion that, under existing law:

1. The Authority validly exists as a joint powers airport authority under the laws of the State of Arizona with the power to enter into and perform its obligations under the Trust Agreement and the Lease and to issue the Series 2012 Bonds.

2. The Trust Agreement has been duly authorized, executed, and delivered by the Authority, and is a valid and binding obligation of the Authority enforceable against the Authority. The Trust Agreement creates a valid lien on the Lease Revenues and the funds pledged by the Trust Agreement as security for the Series 2012 Bonds, on a parity with any Additional Bonds (as defined in the Trust Agreement) to be issued under the Trust Agreement.

3. The Lease has been duly authorized, executed and delivered by the Authority and the City, and is a valid and binding obligation of the Authority and the City enforceable against the Authority and the City. The Lease creates a valid lien on the City's Excise Taxes pledged by the Lease as security for that portion of the Lease Revenues designated as Base Rent, and is subordinate to the City's pledge of its Excise Taxes as security for the outstanding Senior Lien Obligations and any Parity Senior Lien Obligations issued or hereafter incurred and on a parity with any Parity Subordinate Lien Obligations (as defined in the Lease) issued or hereafter incurred.

4. The Series 2012 Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from and are secured by a pledge of and lien on the Lease Revenues as provided in the Trust Agreement.

5. Interest on the Series 2012 Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2012 Bond for any period during which such Series 2012 Bond is held by a "substantial user" of the facilities financed by the Series 2012 Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); however, interest on the Series 2012 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in this paragraph is subject to the condition that the Authority and the City comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Series 2012 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2012 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2012 Bonds.

6. Interest income on the Series 2012 Bonds is excludable from gross income for State of Arizona purposes.

The rights of the owners of the Series 2012 Bonds and the enforceability of the Series 2012 Bonds are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

Except as set forth above, we express no opinion regarding the perfection or priority of the lien on Lease Revenues or other funds created by the Trust Agreement or the Excise Taxes under the Lease. Further, we express no opinion regarding tax consequences arising with respect to the Series 2012 Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

GUST ROSENFELD P.L.C.

Bond Counsel

APPENDIX F

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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$19,220,000
PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SPECIAL FACILITY REVENUE BONDS
(MESA PROJECT), SERIES 2012

CONTINUING DISCLOSURE CERTIFICATE
FOR CITY OF MESA, ARIZONA
(PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
CUSIP NO. 71910E)

This Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the City of Mesa, Arizona (the "*City*") in connection with the execution and delivery by the Phoenix-Mesa Gateway Airport Authority (the "*Issuer*") of its $19,220,000 principal amount of Special Facility Revenue Bonds (Mesa Project), Series 2012 (the "Series 2012 *Bonds*"). The City is an "obligated person" with respect to the Series 2012 Bonds as a result of the City's pledge of its Excise Taxes on a subordinate basis to certain of the rental payments due under the Property and Special Facility Lease Agreement dated as of February 1, 2012 between the Issuer and the City, which payments have been pledged to the payment of the Series 2012 Bonds pursuant to the Trust Agreement dated February 1, 2012 between the Issuer and U.S. Bank National Association, the trustee. In consideration of the initial sale and delivery of the Series 2012 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 Purchaser 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 Series 2012 Bonds.

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

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

"*EMMA*" shall mean the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of MSRB, or any successor thereto approved by the United States Securities and Exchange Commission, as a repository for municipal continuing disclosure information pursuant to the Rule.

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

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

"*Official Statement*" shall mean the final official statement dated February 14, 2012 relating to the Series 2012 Bonds.

"*Participating Purchaser*" shall mean any of the original underwriters of the Series 2012 Bonds required to comply with the Rule in connection with offering of the Series 2012 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 Feburary 1 of each year (the "*Filing Date*"), commencing February 1, 2013, provide electronically to MSRB, in a format prescribed by MSRB, an Annual Report for the fiscal year ending on the preceding June 30 which is consistent with the requirements of Section 4 of this Disclosure Certificate. Currently, filings are required to be made with EMMA. Not later than fifteen (15) business days prior to such Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

(b) If the City is unable or for any reason fails to provide electronically to EMMA an Annual Report or any part thereof by the Filing Date required in subsection (a) above, the City shall promptly send a notice to EMMA in substantially the form attached as ***Exhibit A*** not later than such Filing Date.

(c) If the City's audited financial statements are not submitted with the Annual Report and the City fails to provide to EMMA a copy of its audited financial statements within 30 days of receipt thereof by the City, then the City shall promptly send a notice to EMMA in substantially the form attached as ***Exhibit B***.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date(s) for providing the Annual Report and audited financial statements the proper address of EMMA; and

(ii) if the Dissemination Agent is other than the City, file a report or reports with the City certifying that the Annual Report and audited financial statements, if applicable, have been provided pursuant to this Disclosure Certificate, stating the date such information was provided and listing where it was provided.

Section 4. **Content of Annual Reports**.

(a) The Annual Report may be submitted as a single document or as separate documents comprising an electronic package, and may incorporate by reference other information as provided in this Section, including the audited financial statements of the City; provided, however, that if the audited financial statements of the City are not available at the time of the filing of the Annual Report, the City shall file unaudited financial statements of the City with the Annual Report and, when the audited financial statements of the City are available, the same shall be submitted to EMMA within 30 days of receipt by the City.

(b) The City's Annual Report shall contain or incorporate by reference the following:

(i) Type of Financial and Operating Data to be Provided:

(A) Subject to the provisions of Sections 3 and 4(a) hereof, annual audited financial statements for the City.

(B) Annually updated financial information and operating data of the type contained in the following subsections of the Official Statement:

1. Excise Tax Receipts
2. The following tables in Appendix H – Excise Taxes
    a. City Transaction Privilege (Sales) Tax Rates by Category
    b. Transaction Privilege (Sales) Tax Collections by Industry Classification
    c. State Sales Tax - Taxable Activities, Tax Rates & Distribution Share

(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 Series 2012 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 Series 2012 Bonds, or other events affecting the tax status of the Series 2012 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 Series 2012 Bonds, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the City;
(13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material

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

Section 6. **Termination of Reporting Obligation**. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2012 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 Series 2012 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 Series 2012 Bonds or the resolution authorizing the Series 2012 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 Purchaser, Bond Counsel or the City's financial advisor.

Section 13. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Purchaser and Bondholders, and shall create no rights in any other person or entity.

Section 14. **Governing Law**. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under the Rule and the federal securities law.

Date: February 14, 2012

CITY OF MESA, ARIZONA

By______________________________________

Its Senior Executive Manager

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Phoenix-Mesa Gateway Airport Authority
Name of Bond Issue: $19,220,000 Special Facility Revenue Bonds (Mesa Project), Series 2012
Dated Date of Series 2012 Bonds: February 14, 2012 CUSIP 71910E

NOTICE IS HEREBY GIVEN that the City of Mesa, Arizona, an "obligated person" with respect to the Series 2012 Bonds has not provided an Annual Report with respect to the above-named Series 2012 Bonds as required by Section 3(a) of the Disclosure Certificate dated February 14, 2012. 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: Phoenix-Mesa Gateway Airport Authority
Name of Bond Issue: $19,220,000 Special Facility Revenue Bonds (Mesa Project), Series 2012
Dated Date of Series 2012 Bonds: February 14, 2012 CUSIP 71910E

NOTICE IS HEREBY GIVEN that the City of Mesa, Arizona, an "obligated person" with respect to the Series 2012 Bonds, failed to provide its audited financial statements with its Annual Report or, if not then available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated February 14, 2012, with respect to the above-named Series 2012 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 ____

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

THE INFORMATION PROVIDED UNDER THIS SUBHEADING "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE CITY, BOND COUNSEL, THE FINANCIAL ADVISOR OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 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 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 the Series 2012 Bond certificate will be issued for each maturity of the Series 2012 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"). DTC has a Standard & Poor's rating of AA+. 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 the Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect 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 or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 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 Series 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of The Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Bonds are credited, which may or may not be the Beneficial

Owners. The Direct 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 Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2012 Bond documents. For example, Beneficial Owners of the Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 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 Trustee (initially U.S. Bank National Association.) and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 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 Authority 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 The Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2012 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 Authority or the Trustee on the 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 Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, the City or Trustee, 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 and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2012 Bonds purchased or tendered through its Participant to the Trustee, and shall effect delivery of such Series 2012 Bonds by causing the Direct Participant to transfer the Participant's interests in the Series 2012 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2012 Bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the Series 2012 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2012 Bonds to Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of 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.

THE AUTHORITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS 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 SERIES 2012 BONDS UNDER THE TRUST AGREEMENT; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2012 BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH

RESPECT TO THE SERIES 2012 BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2012 BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered owner of the Series 2012 Bonds, as nominee for DTC, references herein to "Owner" or registered owners of the Series 2012 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2012 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Authority, the City, or the Trustee to DTC only.

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EXCISE TAXES

City Transaction Privilege (Sales) Tax

For most taxable activities occurring within the City, the City's transaction privilege (sales) tax is levied at 1.75%. Such taxes are levied for general municipal purposes upon entities engaging in business within the City by applying the tax rate against the gross proceeds of sales or gross income derived from business activities and is collected by the City on a monthly basis.

The rates applied to the categories of business activities are as shown in the following table.

City Transaction Privilege (Sales) Tax Rates by Category

Category	Tax Rate
Amusement, Exhibitions & Similar Activities	1.75%
Contracting Construction; Construction Contractors	1.75
Job Printing	1.75
Hotels	1.75
Publishing & Periodicals Distribution	1.75
Restaurant/Bars	1.75
Retail Sales	1.75
Utility Services	1.75
Advertising	1.75
Jet Fuel Sales	$0.03/gallon
Manufactured Buildings	1.75
Timbering & Other Extraction	1.75
Mining	0.10
Rental, Leasing & Licensing for Use of Real Property	1.75
Rental, Leasing & Licensing for Use of Real Property; Additional Tax Upon Transient Lodging	3.00
Rental, Leasing & Licensing for Use of Tangible Personal Property	1.75
Telecommunication Services	1.75
Transporting for Hire	1.75

The City's sales tax for general government purposes of 1.20% is pledged for payment of the Base Rent due under the 2012 Lease and Senior Obligations. The City's sales taxes of 0.25% for health, safety and other quality of life issues, 0.30% for street projects in the City and any transient lodging tax (formerly known as transient occupancy tax) are not pledged to the payment of Base Rent due under the 2012 Lease, which will be used by the Authority to pay debt service on the Series 2012 Bonds.

See "EXCISE TAX RECEIPTS" and "BONDHOLDERS' RISK – Voter Approval Necessary for Certain Tax Increases" for a discussion of voter approval requirements related to increases in the City's transaction privilege (sales) tax.

The table below sets forth a record of City transaction privilege (sales) tax receipts by industry classification for fiscal years 2006/07 through 2010/11.

TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS BY INDUSTRY CLASSIFICATION

Industry Classification	2010/11	2009/10	2008/09	2007/08	2006/07
Utilities	$ 11,148,427	$ 9,756,726	$ 9,654,488	$ 9,667,778	$ 9,116,291
Communications	4,473,711	3,808,798	3,748,960	4,312,054	3,939,497
Publishing	1,003,013	1,102,145	1,402,465	1,922,909	1,963,330
Printing & Advertising	343,753	175,207	280,350	374,839	477,939
Contracting	8,421,259	10,913,417	15,263,241	19,300,601	21,424,371
Retail Sales	60,507,384	63,468,754	63,230,187	77,307,911	85,014,600
Restaurants & Bars	11,209,565	10,948,158	10,956,021	12,038,983	11,725,779
Amusements	1,439,113	1,176,440	1,362,931	1,348,973	1,456,808
Rentals	22,308,015	20,122,775	20,514,008	21,369,386	20,533,854
Miscellaneous	676,882	84,330	107,051	119,432	164,582
	$ 121,531,122	$ 121,556,750	$ 126,519,702	$ 147,762,866	$ 155,817,051
Less: Restricted Excise Taxes	$ (38,122,121)	$ (37,369,238)	$ (37,273,420)	$ (43,384,441)	$ (50,078,353)
Net Excise Taxes	$ 83,409,001	$ 84,187,512	$ 89,246,282	$ 104,378,425	$ 105,738,698

Source: City Finance Department.

State-Shared Revenues

State-Shared Sales Taxes. Pursuant to statutory formula, cities and towns in Arizona receive a portion of the State – levied transaction privilege (sales) tax. The State transaction privilege (sales) tax is levied against the same categories of business activity as the City’s transaction privilege (sales) tax with the exception of food sales, which the State exempts from tax. As the following table indicates, the rate of taxation as it relates to such portion of the State levied transaction privilege (sales) tax varies among the different types of business activities taxed, with the most common rate being 5% of the amount or volume of business transacted.

Under current State law, the aggregate amount distributed to all Arizona cities and towns is equal to 25% of the “distribution share” of revenues attributable to each category of taxable activity. The allocation to each city and town of the revenues available to all cities and towns is based on their population relative to the aggregate population of all cities and towns as shown by the latest census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed month the cities and towns.

STATE SALES TAX
Taxable Activities, Tax Rates and Distribution Share

Taxable Activities	State Transaction Privilege (Sales) Tax Rates				
	State Tax Rate	Distribution Share	0.60% Education Tax Rate (a)	1.00% Temporary Tax Rate (b)	Combined Tax Rate
Transporting	5.000%	20.000%	0.600%	1.000%	6.600%
Utilities	5.000%	20.000%	0.600%	1.000%	6.600%
Telecommunications	5.000%	20.000%	0.600%	1.000%	6.600%
Pipeline	5.000%	20.000%	0.600%	1.000%	6.600%
Private car line	5.000%	20.000%	0.600%	1.000%	6.600%
Publication	5.000%	20.000%	0.600%	1.000%	6.600%
Job printing	5.000%	20.000%	0.600%	1.000%	6.600%
Prime contracting	5.000%	20.000%	0.600%	1.000%	6.600%
Owner builder sales	5.000%	20.000%	0.600%	1.000%	6.600%
Amusement	5.000%	40.000%	0.600%	1.000%	6.600%
Restaurant	5.000%	40.000%	0.600%	1.000%	6.600%
Personal property rental	5.000%	40.000%	0.600%	1.000%	6.600%
Retail (excluding food sales)	5.000%	40.000%	0.600%	1.000%	6.600%
Transient lodging	5.500%	50.000%	N/A	1.000%	6.500%
Mining – non-metal, oil/gas	3.125%	32.000%	N/A	N/A	3.125%
Commercial lease	0.000%	53.330%	N/A	N/A	0.000%
Severance – metal liferous mining	2.500%	80.000%	N/A	N/A	2.500%
Use tax utilities	5.000%	20.000%	0.600%	1.000%	5.000%
Jet fuel use tax	(c)	40.000%	N/A	N/A	(c)

(a) Represents the State Transaction privilege (sales) tax rate approved by the voters of the State in November 2000 (the "Education Tax") on certain of the categories of business activity at six-tenths of one percent (0.600%). The Education Tax collections are dedicated exclusively to education expenditures of the State and are not distributed to cities in the State, including the City. The effective dates for the Education Tax are June 1, 2001 through June 30, 2021.

(b) Represents the State transaction privilege (sales) tax rate approved by the voters of the State on May 18, 2010 (the "Temporary Tax") on certain of the categories of business activity at one percent (1.000%). Two-thirds of the Temporary Tax collections are dedicated exclusively to primary and secondary education expenditures of the State and the remaining one-third is dedicated exclusively to health and human services and public safety expenditures of the State. The Temporary Tax is not distributed to cities in the State, including the City. The effective dates for the Temporary Tax are June 1, 2010 through May 31, 2013.

(c) Does not include the $0.0305 per gallon State tax on the retail sale of jet fuel, which tax is only levied on the first ten million gallons sold to each purchaser in each calendar year.

State-Shared Income Tax. Under current State law, Arizona cities and towns are preempted by the State from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to typically receive 15% of State personal and corporate income tax collections. Distribution of such funds is made monthly based on the proportion of the population of each city and town to the total population of all incorporated cities and towns in the State as determined by the latest census.

State-Shared Vehicle License Tax. Approximately twenty percent of the revenues collected for the licensing of motor vehicles is distributed to incorporated cities and towns. A city of town receives its share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county. These monies are distributed on a monthly basis. The only stipulation on the use of this revenue is that it must be expended for a public purpose.

From time to time, bills are introduced in, and legislation enacted by, the Arizona Legislature to change the formulas used to allocate the State-shared sales taxes, State-shared income taxes and State-shared vehicle license tax, including proposed adjustments that would reduce the distribution to cities and towns. The possibility of changes in this respect are more likely to be adverse to the City when the State is experiencing

financial difficulties. The City cannot determine whether any such measures will become law or how they might affect the revenues which comprise the State shared revenues. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law which would repeal or modify state sales taxes, state income taxes (the major source of funds for state revenue sharing) and vehicle license taxes. The City cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

Other Excise Tax Revenues

Cities and towns in the State have exclusive control over public rights of way dedicated to the municipality, and may grant franchise agreements to, and impose franchise taxes on, utilities using those rights of way. The City also imposes and collects fines and forfeitures for violations of State laws or City ordinances relating to traffic, parking, animal control and other offenses.

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