

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, 2009. 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–IX, 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 \$67.6 million in fiscal year 2009.
- Total net assets of the City are \$1.75 billion, of which \$370 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. However, \$313 million of the unrestricted net assets are invested in joint ventures as of June 30, 2009.
- As of the end of fiscal year 2009, the City's governmental funds reported a combined ending fund balance of \$196.8 million, a \$17 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 unreserved fund balance for the General Fund was \$74.7 million, or 19.6% of total General Fund expenditures, compared to \$50.3 million, or 12.7% of total General Fund expenditures the previous year.
- The City issued \$61.8 million in general obligation debt during the current fiscal year for new storm sewer and public safety improvement projects.
- The City issued \$59.9 million in taxable utility system revenue debt during the current fiscal year. These taxable bonds qualify as Build America Bonds under the America's Economic Recovery and Reinvestment Act of 2009 and include a 35% interest rebate from the Federal government that will total \$30.8 million over the life of the bonds.

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.

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, 2009, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Highway User Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009 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 Honorable Mayor and the City Council of the
City of Mesa, Arizona

The management's discussion and analysis on pages 13 through 17, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 59 and the Other Postemployment Benefit Plan Schedule of Funding Progress on page 62 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.

Larson Allen LLP

LarsonAllen LLP

Mesa, Arizona
December 8, 2009

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Audit Committee
City of Mesa, Arizona
Mesa, Arizona

In planning and performing our audit of the financial statements of City of Mesa, Arizona as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening operating efficiency. This letter does not affect our report dated December 8, 2009, on the financial statements of City of Mesa, Arizona.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Accounting System

The City has used its accounting system for approximately 35 years. The system does not allow the City to take advantage of efficiencies that could be gained by current information technology. In addition, due to the age of the system, the changes in generally accepted accounting principles and the increasing complexity of accounting transactions over the past 35 years, the City has had to incorporate duplicative manual internal controls over the reporting system. The City should consider upgrading its accounting system.

Grant Reimbursements

Most of the City's grants are funded on a reimbursement basis. The grants require the City first incur and fund an eligible expenditure and then apply for reimbursement of the expenditure. However, not all reimbursements are requested on a regular basis. In order to better manage the City's cash balances, reimbursement of eligible grant expenditures should be made on a regular basis.

We wish to thank City of Mesa, Arizona personnel for their assistance during the audit. Please feel free to contact us concerning our audit or the contents of this letter.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
December 8, 2009



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