

**EXCERPT FROM THE MINUTES OF THE AUDIT & FINANCE COMMITTEE  
MEETING HELD ON DECEMBER 17, 2008**

2. Hear a presentation and accept the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2008.

City Controller Doug Yeskey addressed the Committee and reported that the above-referenced Comprehensive Annual Financial Report (CAFR) is the City's audited financial statements for the Fiscal Year ended June 30, 2008. He thanked the Print Shop for their quick turnaround in printing the document. Mr. Yeskey also expressed appreciation to his staff for their dedication and hard work in completing the CAFR in a timely manner.

Mr. Yeskey noted that the City of Mesa's CAFR for the Fiscal Year Ended June 30, 2007 received the Certificate of Achievement for Excellence in Financial Reporting, which is awarded by the Government Finance Officers Association. He explained that Mesa has received such recognition for 26 consecutive years and said he anticipates that the City would receive similar recognition for its CAFR for the Fiscal Year Ended June 30, 2008.

Mr. Yeskey introduced Carter Smitherman of Cronstrom, Osuch & Company, the Certified Public Accounting firm retained by Mesa to perform the audit of the City's financial statements.

Mr. Smitherman stated that his firm gave an unqualified opinion regarding the City's financial statements for the Fiscal Year ended June 30, 2008. He also provided a brief overview of each section of the CAFR. (The report is available for review in the City Clerk's Office.) In response to a series of questions from Chairman Somers, Mr. Smitherman explained that the City's restricted net assets (referenced on Page 6 of the CAFR) are defined as any net assets that have been restricted by outside parties (i.e., grantors, bond covenants) and that such assets can only be used for specific purposes. He stated that net assets are divided into the following categories: investment in capital assets, net of related debt; restricted by outside parties; and unrestricted. Mr. Yeskey also noted that the City's investment in joint ventures (i.e., light rail, wastewater treatment plant with Phoenix) is included in unrestricted net assets and not available to be spent.

Mr. Smitherman referred the Committee to Page 18 of the CAFR, which provides a more detailed statement of the net assets, and commented that the accounting basis that is used for this statement differs from the accounting basis for governmental funds. (See Attachment 1)

In response to a question from Chairman Somers, Mr. Smitherman advised that the CAFR does not contain a schedule detailing the unrestricted net assets that are not part of the joint ventures. He noted, however, that such a listing could be compiled.

City Manager Christopher Brady directed the Committee to Page 3 of the CAFR. (See Attachment 2) He highlighted the following sentence: "At the end of fiscal year 2008, the City's governmental funds reported a combined ending fund balance of \$179.9 million, a \$2.4 million decrease from the previous year." He explained that such monies are the relied upon cash reserves that the City uses to operate under any kind of unusual circumstances or conditions. Mr. Brady also commented that this type of fund balance is reviewed by the rating agencies to determine whether Mesa has sufficient reserves in place.

Mr. Brady further referenced the following excerpt: "At the end of the fiscal year, the City's unreserved fund balance for the General Fund was \$50.3 million, or 12.7% of total General Fund expenditures, compared to \$57 million, or 16.4% of total General Fund expenditures the previous year." He noted that the Council adopted a financial policy to maintain a fund balance between 8% and 10% and said that the 12.7% amount is ahead of that goal. Mr. Brady added that due to the dramatic downturn in the economy, staff is working to ensure that the City's fund balance does not fall below 10% over the next three to five years.

Mr. Smitherman further highlighted the "City of Mesa, Arizona Single Audit Act Reports for Fiscal Year Ended June 30, 3008," which is generated when the City receives/spends more than \$500,000 in Federal expenditures during the year.

It was moved by Committeemember Jones, seconded by Committeemember Higgins, to recommend to the Council that the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2008, be accepted.

Carried unanimously.

Chairman Somers thanked everyone for the presentation.

CITY OF MESA, ARIZONA  
**EXHIBIT A-1**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

Attachment 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 193,116,385	\$ 51,103,335	\$ 244,219,720
Investments	24,344,175	10,752,396	35,096,571
Receivables:			
Accounts and Miscellaneous (Net of Allowances)	23,298,038	24,802,032	48,100,070
Accrued Interest	812,569	994,303	1,806,872
Due From Other Governments	17,764,523	2,241,453	20,005,976
Internal Balances	775,393	(775,393)	-
Inventory	4,633,947	-	4,633,947
Prepaid Costs	714,103	122,787	836,890
Deposits	1,141,342	15,120,950	16,262,292
Restricted Assets:			
Cash and Cash Equivalents	27,987,584	105,331,039	133,318,623
Accounts Receivable	11,170,629	-	11,170,629
Customer Deposits	-	3,374,128	3,374,128
Unamortized Bond Issue Costs	1,307,059	3,191,689	4,498,748
Investment in Joint Ventures	51,499,683	251,485,286	302,984,969
Capital Assets:			
Non-Depreciable	354,041,521	207,484,232	561,525,753
Depreciable, Net	859,908,623	980,383,768	1,840,292,391
<b>Total Assets</b>	<u>1,572,515,574</u>	<u>1,655,612,005</u>	<u>3,228,127,579</u>
<b>LIABILITIES</b>			
Warrants Outstanding	3,323,768	-	3,323,768
Accounts Payable	21,726,512	9,452,299	31,178,811
Other Accrued Expenses	28,689,725	-	28,689,725
Customer and Defendant Deposits	8,504,976	-	8,504,976
Compensated Absences	1,358,235	-	1,358,235
Liabilities Payable From Restricted Assets	32,473,298	45,435,361	77,908,659
Noncurrent Liabilities:			
Due Within One Year	49,590,641	14,088,940	63,679,581
Due in More Than One Year	420,747,861	774,212,394	1,194,960,255
<b>Total Liabilities</b>	<u>566,415,016</u>	<u>843,188,994</u>	<u>1,409,604,010</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	794,720,403	410,073,719	1,204,794,122
Restricted For:			
Quality of Life Projects	33,817,579	-	33,817,579
Convention Center	-	171,845	171,845
Airport	-	4,872,995	4,872,995
Golf Courses	-	26,421	26,421
Capital Projects	15,348,927	55,104,205	70,453,132
Debt Service	-	25,273,592	25,273,592
Bond Indentures	-	8,587,683	8,587,683
Grant Programs	2,723,605	-	2,723,605
Transportation Programs	34,362,011	-	34,362,011
Water, Wastewater & Solid Waste Improvements	-	96,592	96,592
Unrestricted	125,128,033	308,215,959	433,343,992
<b>Total Net Assets</b>	<u>\$ 1,006,100,558</u>	<u>\$ 812,423,011</u>	<u>\$ 1,818,523,569</u>

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

## 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, 2008. 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 increased \$32 million in fiscal year 2008.
- Total net assets of the City are \$1.82 billion, of which \$433 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. However, \$303 million of the unrestricted net assets are invested in joint ventures as of June 30, 2008.
- As of the end of fiscal year 2008, the City's governmental funds reported a combined ending fund balance of \$179.9 million, a \$2.4 million decrease 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 \$50.3 million, or 12.7% of total General Fund expenditures, compared to \$57 million, or 16.4% of total General Fund expenditures the previous year.
- The City issued \$15.5 million in general obligation debt during the current fiscal year for new storm sewer and public safety improvement projects.
- The City issued \$74 million in utility system revenue debt during the current fiscal year. \$52.9 million was issued for new electric, gas, water, and wastewater improvements and \$21.1 million was issued to refund prior outstanding utility system revenue 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.

**A COPY OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)  
WAS PREVIOUSLY PROVIDED TO COUNCIL. IF YOU NEED ANOTHER  
COPY OF THE REPORT, PLEASE CONTACT CARLA WAGNER.**