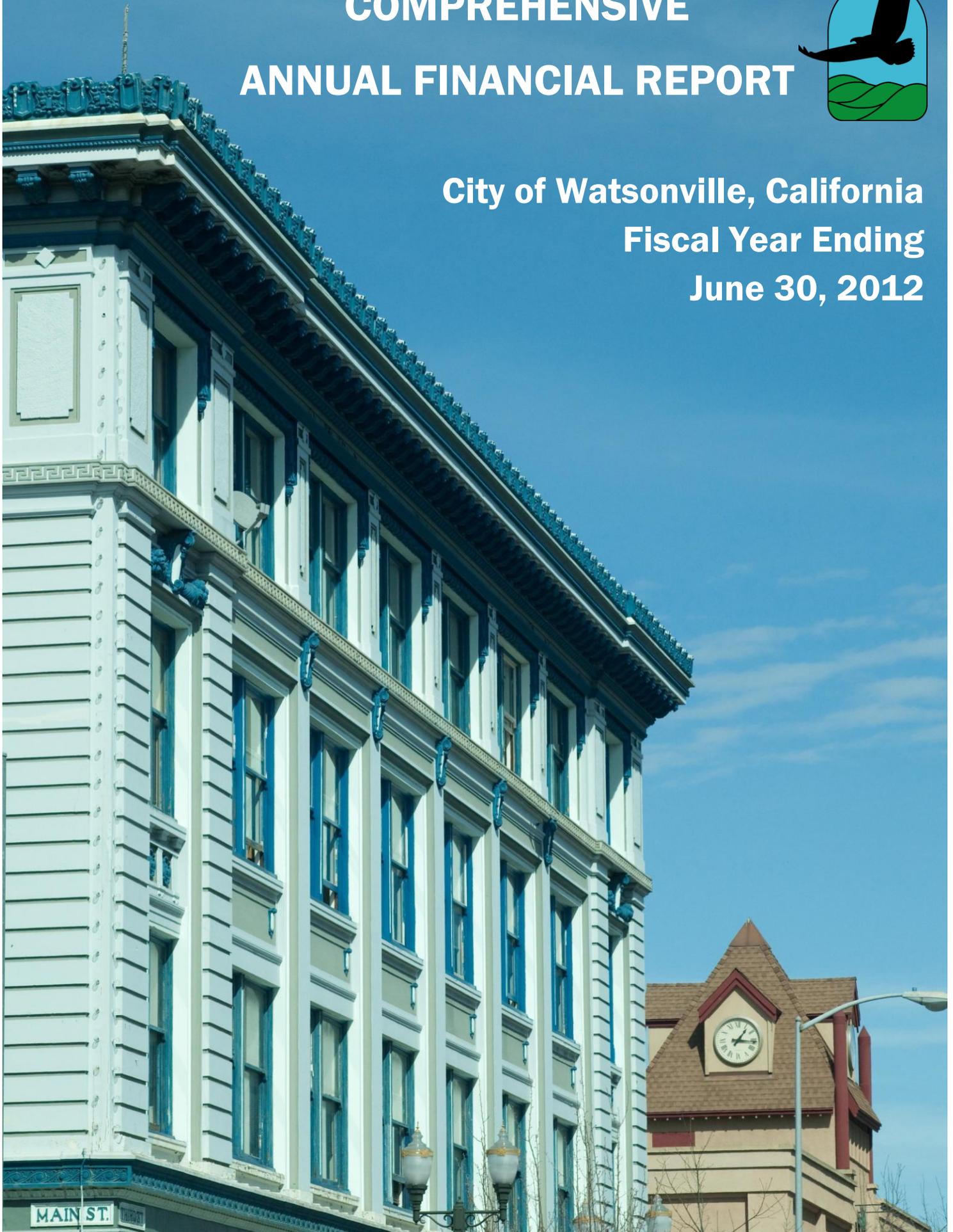


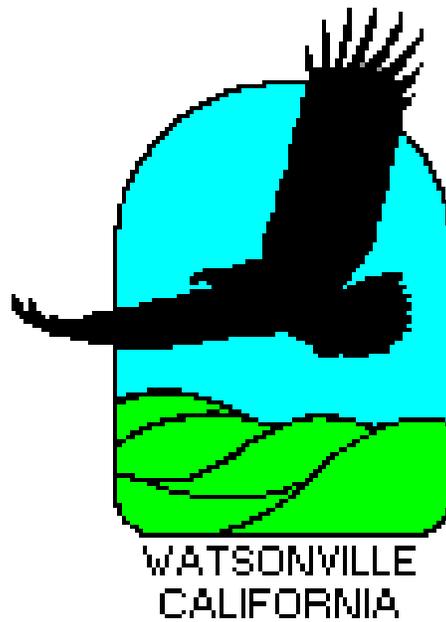
COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Watsonville, California
Fiscal Year Ending
June 30, 2012



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City of Watsonville, California

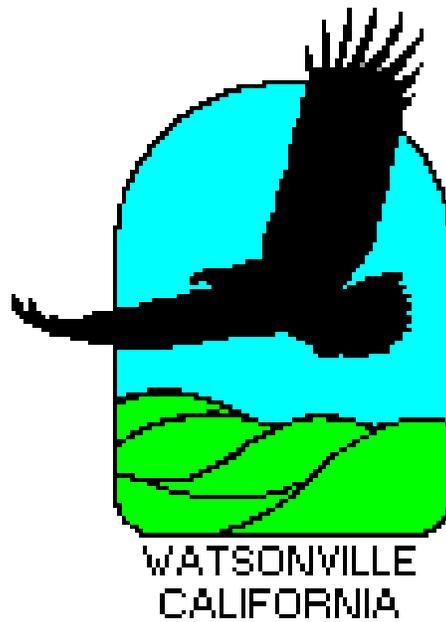
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Prepared by the Finance Department
Ezequiel Vega, Administrative Services Director



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CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2012

TABLE OF CONTENTS

I. INTRODUCTORY SECTION:

Transmittal Letter	2
GFOA Certificate of Achievement	11
Officers and Officials	12
Organizational Structure	13

II. FINANCIAL SECTION:

Independent Auditors' Report	17
Management's Discussion and Analysis	19
Basis Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	32
Statement of Activities	35
Fund Financial Statements:	
Balance Sheet - Governmental Funds	36
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	37
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	39
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund	40
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Impact Fees Fund	41
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Low Income Housing Set Aside Fund	42
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Redevelopment and Housing Grants Fund	43
Statement of Net Assets - Proprietary Funds	44
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	45
Statement of Cash Flows - Proprietary Funds	46

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2012

TABLE OF CONTENTS (Continued)

Statement of Fiduciary Net Assets – Private Purpose Trust Fund	47
Statement of Changes in Net Assets - Private Purpose Trust Fund	48
Notes to Financial Statements	49
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	96
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	98
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual:	
Gas Tax and Narcotics Assets Seizure Funds	100
Business Development and Rental Rehabilitation Grants Funds	101
Library and Low Income Housing Set Aside Funds	102
Parks Development and Retirement Tax Funds	103
Redevelopment and Parking Garage Funds	104
Business Booster Loan Program and Abandoned Vehicle Funds	105
Inclusionary Housing Fund	106
Debt Service Funds	107
Capital Assets Used in the Operations of Government Funds:	
Comparative Schedule by Source	108
Schedule by Function and Activity	109
Schedule of Changes by Function and Activity	110

III. STATISTICAL SECTION (Unaudited):

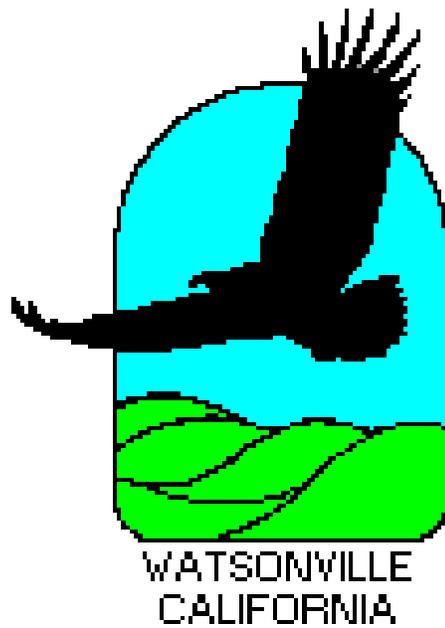
Net Assets By Component - Last Ten Fiscal Years	112
Changes In Net Assets - Last Ten Fiscal Years	113
Governmental Activities Tax Revenues By Source - Last Ten Fiscal Years	115
Fund Balances of Governmental Funds - Last Ten Fiscal Years	116
General Governmental Tax Revenues By Source - Last Ten Fiscal Years.	118
Assessed Value and Estimated Actual Value of Taxable Property	119
Property Tax Rates - Direct and Overlapping - Last Ten Years	120
Principal Property Taxpayers	121
Property Tax Collection	122
Ratio of Outstanding Debt By Type - Last Ten Fiscal Years	123
Ratio of Net General Obligation Debt Outstanding - Last Ten Fiscal Years.	124
Legal Debt Margin Information - Last Ten Fiscal Years	125
Computation of Direct and Overlapping Bonded Debt	126
Historical and Projected Library Special Sales Tax Revenue	127

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2012

TABLE OF CONTENTS (Continued)

Library Special Revenue Certificates of Participation –	
Debt Service Coverage	128
Water Revenue Bond Coverage - Last Ten Fiscal Years	129
Estimated Water Revenue Bond Coverage - Next Five Fiscal Years	130
Ten Largest Customers and Percentage of Total Water Revenues	131
Water Service Accounts - Last Ten Calendar Years	132
Service Area Water Deliveries - Last Ten Calendar Years	133
Demographic and Economic Statistics - Last Ten Fiscal Years	134
Principal Employers – Current Fiscal Year and Nine Years Ago	135
Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years	136
Operating Indicators by Function - Last Ten Fiscal Years	137
Capital Assets Statistics by Function - Last Ten Fiscal Years	138

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INTRODUCTORY SECTION

CITY OF WATSONVILLE

“Opportunity through diversity; unity through cooperation”



January 29, 2013

Honorable Mayor, City Council and
Citizens of the City of Watsonville:

REPORT PURPOSE AND ORGANIZATION

We are pleased to present the City of Watsonville’s Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The CAFR is intended to present information above and what is required by generally accepted accounting principles and State law.

The Charter of the City of Watsonville and the State of California law require that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (U.S.GAAP). The report should also be audited by an independent firm of certified public accountants (CPA) in accordance with generally accepted government auditing standards (GAGAS). Pursuant to the requirements, we hereby issue the comprehensive annual financial report of the City of Watsonville for the fiscal year ended June 30, 2012.

The CAFR consists of management’s representation concerning the finances of the City of Watsonville (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Watsonville’s financial statements in conformity to U.S.GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Watsonville’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Audited Financial Statements

Moss, Levy and Hartzheim L.L.P., Certified Public Accountants, have issued an unqualified (“clean”) opinion on the City of Watsonville’s financial statements for the fiscal year ending June 30, 2012. A copy of this report is included in page 17 in the Financial Section of this report.

The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended June

30, 2012, are fairly presented in conformity with U.S. GAAP. The independent auditors report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Watsonville was part of a broader, federally mandated **Single Audit** (A-133) designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Watsonville's separately issued Single Audit Report.

Organization of Report

The Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Watsonville's MD&A can be found immediately following the report of the independent auditors. Based on these requirements, the City presents this CAFR in three sections: introductory, financial and statistical.

1. The Introductory section includes this transmittal memorandum and other information to familiarize the reader with the City, including a directory of officials, the City's mission statement and organizational values, and the organization chart.
2. The Financial section consists of five parts: the independent auditors' report; Management's Discussion and Analysis; the basic financial statement including the Government-Wide Financial Statements, Fund Financial Statements, and Notes to the Financial Statements; Required Supplementary Information; and additional supplementary statements.
3. The Statistical section includes selected unaudited financial and demographic information, generally presented on a multi-year basis. This information includes Financial Trends, Revenue Capacity, Debt Capacity, Demographics and Economic Information, and Operating Information

PROFILE OF THE CITY OF WATSONVILLE

The City of Watsonville was incorporated in 1868 and is located six miles inland from the Monterey Bay in the State of California. The government has a land area of 6.19 square miles and a population of 51,611 people as of January 1, 2012.

Watsonville became a charter City government in 1908. Policymaking and legislative authority are vested in the governing City Council, which consists of seven Council Members, one of whom serves as mayor and is elected annually by the City Council. The council is elected on a non-partisan basis from seven electoral districts. Council members are elected to four-year terms. Selections are staggered with four Council Members elected during one election and three Council Members elected in the following election two years later. The governing City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing

committees, and hiring the government's City Manager, City Clerk, and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the department heads.

City Services

The City of Watsonville provides a full range of services including police and fire protection; water treatment and distribution; solid waste collection and landfill disposal; sanitary sewer collection and treatment services; airport facilities; building inspection, planning, economic development, housing rehabilitation, and general government services; library services; recreational services; parks; street construction and maintenance; and general administration. The financial reporting entity of the City includes all the funds of the City of Watsonville, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. In the case of the City, the Redevelopment Agency (RDA) of the City of Watsonville is included in this report until its recent dissolution enacted by State law (AB1X26). Information after its dissolution is presented separately as part of the fiduciary statements of the Successor Agency which took over all the assets of the former RDA. Additional information can be found on this entity starting on page 86 within the notes to the financial statements.

Budgetary Process and Controls

The annual budget serves as the foundation for the City of Watsonville's financial planning and control. All departments of the City of Watsonville are required to submit requests for appropriations to the government's management on or before March 31 of each fiscal year.

The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to May 31. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City of Watsonville's fiscal year. The appropriated budget is prepared by fund, department (e.g., police), and division (e.g., investigation). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The general fund, impact fee fund, housing fund, and redevelopment and housing grant fund comparisons are presented on pages 40 to 43 as part of the basic financial statements for the governmental funds. For governmental funds, other than major funds, with appropriated annual budgets, these comparisons can be found in the governmental fund subsection of this report, which starts on page 100.

FACTORS AFFECTING FINANCIAL CONDITON

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

Local Economy

The Pajaro Valley has a long tradition as an agricultural center. In the late 1800s, the area harvested staples such as wheat and sugar beets. In 1868, the same year Watsonville was incorporated; Martinelli's Sparkling Apple Cider was founded and led the change for Watsonville to become a major food processing center. Agriculture has remained the heart of the Pajaro Valley through today, with the base shifting towards the production of strawberries and flowers. At the same time, various light manufacturing firms have expanded Watsonville's economic base to include electronics, high-tech, marine supplies, and construction, such as Applied Motion Products, CSC Group, West Marine, Fox Racing Shox, Annieglass, Granite Construction, and Granite Rock, and a new biodiesel plant to open its doors in the Spring of 2013.

Economic conditions in Watsonville are heavily influenced by agriculture and the housing market. Although Watsonville is located in Santa Cruz County, it doesn't share the same characteristics as the rest of the County. Watsonville tends to have a median household income 25% less than the County average due to the high number of farm workers and service workers who live in the City. This puts limits on the consumer tax base not found in other areas. Also, home values are often 40% of those throughout other parts of the County, which in turn helps establish Watsonville as a bedroom community for those working in farming or service industries throughout our region.

The Great Recession's impact of higher unemployment rates and declining home values has hurt the Watsonville economy to a greater extent than the surrounding communities. Since its peak in 2006, the annual, median sale price for a single family home has dropped 44% (from a revised \$649,500 to \$366,000 in 2012). This rapid decline resulted from the extraordinary rise in Watsonville's foreclosure rates. According to data collected from RealtyTrac.com, the number of foreclosed properties at the beginning of fiscal year 2007/08 was 220 but reached a peak in August 2008 of 1,053 properties. More recent data collected from foreclosureradar.com indicates foreclosures have decreased over the 2012 calendar year from a high of 41 foreclosures per month to a low of approximately 16 foreclosures per month.

The trends of the City's single family and town homes/condos sales have followed a similar course. These categories combined home sales in 2004 peaked near a revised 426 followed by the run-up in applicable values during 2005 and 2006. Since then, values have been on the decline as the number of sales decreased, bottoming out in 2007 at a revised 136 homes. Generally it would have been an encouraging sign to see the significant increase in calendar 2008 and 2009 home sales to a total of 347 and 422 respectively. However, many of those sales can be attributed to short sales from foreclosures indicating that traditional home values are unsteady. Calendar 2010 home sales dropped to 287 units sold and 2012 sales are on pace for 240 units sold. Although there are some signs of recovery, the property assessed values are still projected to decrease by 1.67% in FY 2012-13 compared to assessed values in FY 2011-12.

Watsonville also has a higher unemployment rate in comparison to the rest of Santa Cruz County and the nation. According to the State Employment Development Department, the average estimated unemployment rate at the end of fiscal year 2011/12 was 20.2% for Watsonville and 9.5% for the County as a whole. Watsonville's rate has increased with the loss of several key employers over the course of this recession (Birds Eye Foods, Inc, Indalex and its downtown retail anchor Gottschalks).

In addition to the housing and unemployment trends, certain revenue streams provide a supporting indication of how the local economy is doing. Property tax provides a glance of how strong housing prices are increasing or decreasing. Sales tax specifically is a good barometer of residential and visitor's ability to have and willingness to spend their resources. Community development (planning and building) fees provide a glimpse of what the development sector expects for demand in the near future.

Total Property Tax collections (excluding Redevelopment Tax Increment) experienced abnormally high growth rates between 2001-02 and 2006-07 (12.3% annual average). The recession's impact was felt in 2008-09 when total receipts dropped 5.3% followed by a 14.0% drop in 2009-10. Collections for FY 2010-11 declined by 1.5% while FY 2011-12 shows a 7% increase.

Sales Tax revenue had been a relatively stable revenue source prior to the recession. Total sales tax collections (modified accrual) grew annually at a 6.0% average rate from 2001-02 through 2006-07. This was followed by three years of declines that averaged <7.5%> annually through 2009-10 (after adjusting out a 2007 ¼-cent sales tax increase from a local ballot measure revenue swap). However, 2010-11 collections reversed and grew 9.7% from the prior year and with 2012-13 collections projected to grow nearly 2%.

Community development fees may have reached the bottom for this decade following annual declines of 30%, 16.1%, 41.5% and 16.3% in each of the fiscal years from 2004-05 through 2007-08. For 2008-09, total fees increased slightly by 4.5% to just over \$800,000 in total but experienced another big decline in 2009-10 of 24.9% to just over \$600,000. Fiscal year 2010-11 fees rebounded to nearly \$740,000 on the strength of code enforcement citations but could decline to below \$650,000 for 2012-13.

During the coming 2012-13 fiscal year, the City's revenues are likely to stabilize, led by low growth in Property and Sales taxes and increases in various General Fund and Enterprise fees that are tied to the consumer price indexes annual 2.8% rate change.

Long-term financial planning

Although the City's long-term revenue projections may stabilize, there is still considerable risk for declines as the national economy emerges from the Great Recession. Property tax rates continue to decrease in small increments while sales tax projections indicate growth will continue with small increases in 2011-12 and 2012-13. However, the large quantity of home foreclosures and, in turn high unemployment rates (averaged 20 % during 2011-12), will continue to suppress revenue growth to lower than those of neighboring communities.

Property tax revenue trends may fluctuate in the upcoming years. The overall inventory of sales has diminished significantly, including the inventory of foreclosures. There are multiple offers being made for properties bidding the prices up. Nevertheless, this increase in pricing is not significant, as the assessed property values are projected to be lower by 1.67% in FY 2012-13. However, supplemental tax values may increase as the homes in inventory may sell for higher prices than the assessed value. According to census data, average home prices in Watsonville are at \$366,000 in 2012, as compared to a lower \$303,000 a year ago. If home values continue to increase, it will result in higher assessed valuation and higher property tax revenues for the City. If the balance is positive, the projected decrease in assessed valuation may be offset by increased

housing prices and its related supplemental tax.

Sales tax collections increased in FY 2011-12 by an estimated 2% in comparison to the same period in FY 2010-11. Although there remains vacant retail space within the City, it is anticipated that in FY 2012-13 there will be small increases in sales tax of almost 2% over the year. However, collections could drop as surrounding communities compete for sales tax consumers and if the City's unemployment rate worsens.

Changes in Vehicle license fees indicate consumer's willingness for larger capital purchases. Near-term vehicle sales grew significantly in prior periods and signs of stabilization point to stable sales in FY 2011-12 and possibly the next fiscal year. New auto sales were up 13.0% for the June 2012 quarter as compared to the same quarter for 2011. If these trends continue, it could lead to larger increases in vehicle license fees in the coming years. However, this trend will likely not materialize and sales will most likely be flat in the next fiscal year. Utility user taxes are driven by consumer utility prices and demand. As demand lessened during the recession, receipts declined as well. Increases in utility rates from higher energy prices and planned capital improvements to pipeline infrastructure may lead to increased tax collection in the coming years. This source of funding remained relatively stable in FY 2011-12. Public Safety funding finished the year slightly below the level from prior year. However, public safety funding will be at risk as the State of California presents options to offset its currently projected deficits. Even with the passage of Proposition 30, the future is not a positive one for the State and this may impact the City's public safety funding.

Budget deficits have been eliminated in the most recent results. The FY 2011-12 and 2012-13 were approved as balanced by the City Council but not without many painful reductions. Austerity and wise spending patterns will continue to remain a part of the City's operations. During the 2011-12 fiscal year, under the City Council's direction, management built a strategy to balance the City's 2012-13 Budget through the following major objectives:

1. Meet with and agree to continue employee compensation concessions
2. Develop line item reduction options, including contractual services
3. Develop service reduction alternatives starting with added value programming and services and ending with core and essential services
4. Consider and propose resource enhancement options
5. Evaluate new opportunities to change how services are delivered

In the end, the General Fund results show a positive change in fund balance which increased from \$1.6 million in FY 2010-11 to \$4.3 million in 2011-12. This improvement was achieved through major employee concessions, elimination of General Fund capital projects and using other measures as described above. More details about these reductions can be found in 2012-13 Budget Document available within the Finance Department's home page (<http://cityofwatsonville.org/finance-2>).

Nevertheless, the fund balance level still needs improvement and City staff, under the direction of City Council members, will collaborate with City employees and continue working to improve its fund balance.

As referenced already, California's projected multi-billion deficit through fiscal year 2012-13 could result in substantial takeaways from the City of Watsonville. City funding sources for public safety, economic development and library programs are likely to be cut as the State develops specific legislative proposals to balance its long term structural operating deficit. Additional cuts to public safety can occur depending on the size of the shortfall. In addition, Governor Jerry Brown may again consider proposals to move services from the State level to the local level.

Fortunately, the passage of proposition 1A in November 2004 and Proposition 22 (under review by State Supreme Court) in November 2010 added new constitutional protections to some of the City's key revenue streams.

However, as referenced in an earlier section of this report, ABx126 was upheld by a court decision eliminating redevelopment in California. Later in the year AB 1484 was passed to add and clarify requirements for RDA dissolution. These new requirements have placed many new responsibilities upon the City in its new role as the successor agency with diminished revenues to operate the new agency.

As part of economic development efforts, the City continues to actively seek out and plan for opportunities to spur local development and economic growth. The City produced last year a new business marketing strategy with new website and logo entitled "Growing Opportunities on California's Monterey Bay". The City will continue implementing the applicable elements of this strategy. It has also assisted with the relocation of several businesses with the City, worked on beautification projects such as the historical apple crate mural program, and is supporting efforts to fill vacant retail space and drastically increase the City and surrounding region's broad band capacity.

Other long-term projects have been completed to improve our region's Water resources. The City's Water Enterprise Fund partnered with the Pajaro Valley Water Management Agency (PVWMA) to construct a water recycling facility and operations center. These facilities are in operation and will ensure the viability of coastal farming by providing an alternate water source to reduce the rate of salt water intrusion in the area's coastal wells.

Future growth plans include the development of a formally annexed area known as the Manabe-Ow area. The City is in the process of evaluating ways to support the development of the major infrastructure improvement that will be required. Ultimately, this land will be used predominantly for light industrial purposes and is estimated to create an additional 2,000 jobs over the next 20 years. The project is also expected to spur reinvestment in the surrounding industrial areas, further aiding in revenue growth and job creation for the City.

Also, the City and County are in the process of updating plans for future development in what is known as the Atkinson Lane area. This project includes the long-term development of approximately 450 dwelling units, 50% of which will be affordable housing. The City will not consider this area for development until the start of the next housing element cycle beginning in 2014.

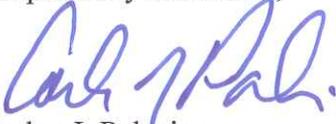
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watsonville, California for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2011. This was the twelfth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easy, readable, and efficiently organized CAFR. The report satisfies both U.S. GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the government has received the GFOA's Award for Distinguished Budget Presentation for its biennial budget dated June 23, 2011. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including policy documentation, a financial plan and a communication device.

The preparation of this report could not have been accomplished without the efficient and dedicated service of the Finance Department staff. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. In particular Assistant Finance Officer, William P. Hays, CPA, who coordinated the audit. His leadership and dedication to the project is the major contributing factor to the City being rewarded the Certificate of Achievement for the last twelve years. Marissa Duran and Patricia Rodriguez, Financial Analysts, who maintain the City's general ledger, also deserve special recognition for their contribution to the report. The following remaining Finance Staff made this report possible through their dedicated service throughout the fiscal year: Marisa Bermudez, Letty Galvan, Christine McGrath, and Mary Stepovich. The Mayor and the governing council should also be given due credit for their interest and support in managing the City of Watsonville in a responsible and progressive manner.

Respectfully submitted,

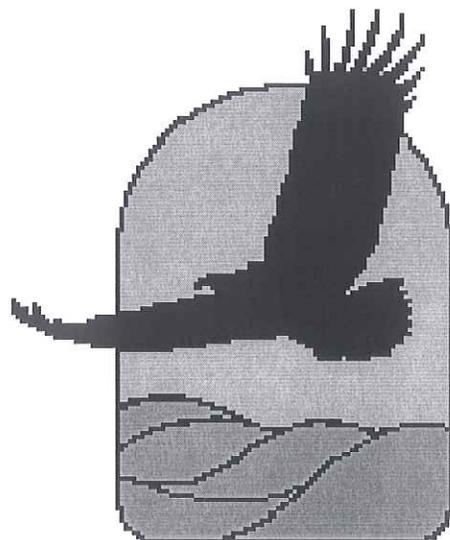


Carlos J. Palacios
City Manager



Ezequiel Vega
Administrative Services Director

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WATSONVILLE
CALIFORNIA

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watsonville
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director

City of Watsonville, California

Officers and Officials

For the Fiscal Year Ending June 30, 2012

City Council:

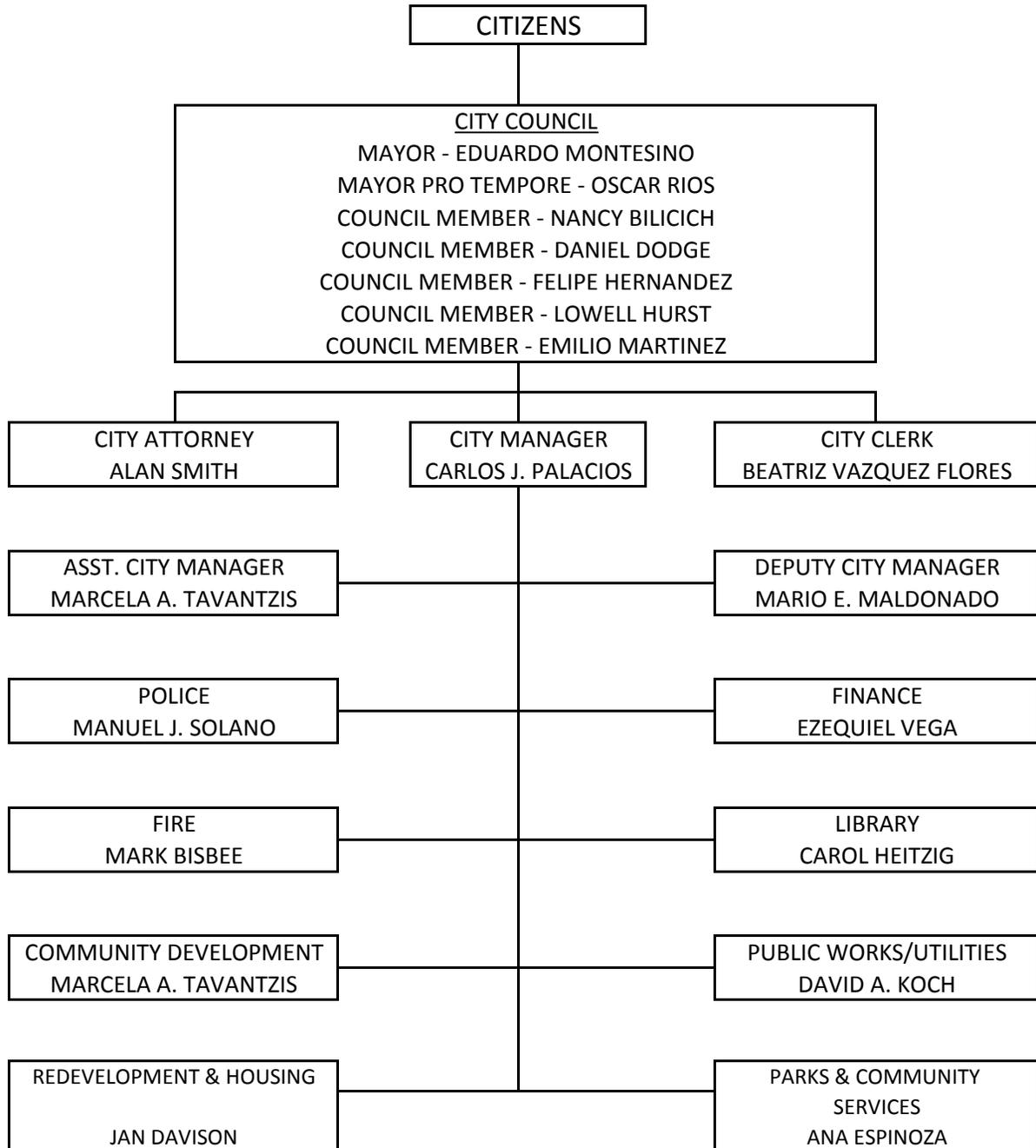
Mayor – Eduardo Montesino
Mayor Pro Tempore – Oscar Rios
Council Member – Nancy Bilicich
Council Member – Daniel Dodge
Council Member – Felipe Hernandez
Council Member – Lowell Hurst
Council Member – Emilio Martinez

City Officials:

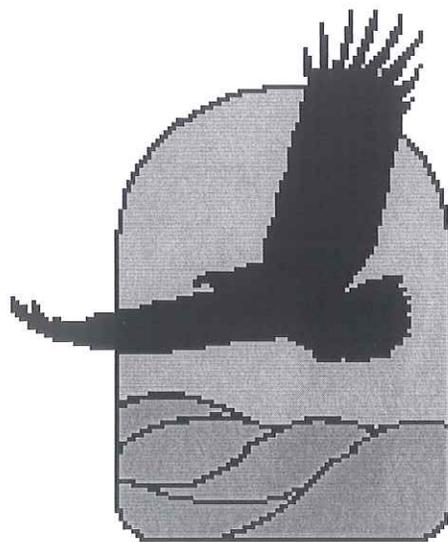
City Manager – Carlos J. Palacios
Assistant City Manager – Marcela A. Tavantzis
Deputy City Manager – Mario E. Maldonado
City Clerk – Beatriz Vazquez Flores
Fire Chief – Mark Bisbee
Police Chief – Manuel J. Solano
Public Works and Utilities Director – David A. Koch
Administrative Services Director – Ezequiel Vega
Library Director – Carol Heitzig
Community Development Director – Marcela A. Tavantzis
Parks and Community Development Services Director – Ana Espinoza
Redevelopment and Housing Director – Jan Davison

WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE FISCAL YEAR 2011 - 2012



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WATSONVILLE
CALIFORNIA

Financial Section



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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CRAIG A HARTZHEIM, CPA
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INDEPENDENT AUDITORS' REPORT

City Council of the City of Watsonville
Watsonville, California

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 Watsonville (City), as of and for the fiscal year ended June 30, 2012, 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 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 Watsonville as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, Impact Fees Fund, Housing Fund, and the Redevelopment and Housing Grants Fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Effective July 1, 2011, the City of Watsonville adopted Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. Implementation of the GASB Statement No. 64 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2012.

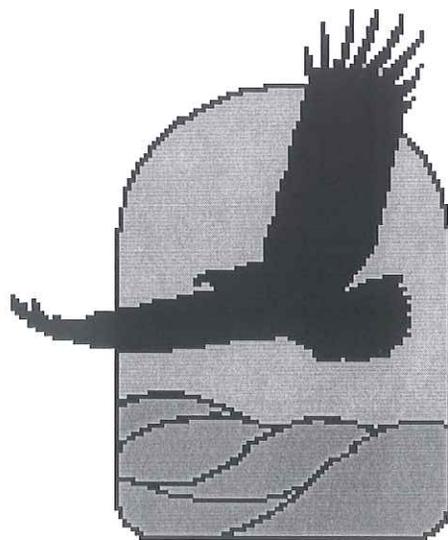
In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section, combining nonmajor fund financial statements, nonmajor funds budgetary comparison schedules and the statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining nonmajor fund financial statements and nonmajor funds budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information included in the introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
January 28, 2013

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WATSONVILLE
CALIFORNIA

CITY OF WATSONVILLE, CALIFORNIA MANAGEMENTS DISCUSSION AND ANALYSIS

As management of the City of Watsonville, we offer readers of the City of Watsonville's financial statements this narrative overview and analysis of the financial activities of the City of Watsonville for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2 - 9 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Watsonville exceeded its liabilities at the close of the most recent fiscal year by \$269,247. Of this amount, \$28,703 (unrestricted net assets) may be used to meet the government's obligations to citizens and creditors.
- The government's total restated net assets increased by \$19,235. Investment in capital assets, net of related debt increased by \$14,427, restricted funds decreased by \$10,334 and unrestricted increased by \$14,806. The major reason for the increase in net assets was the dissolution of all redevelopment agencies in the State of California, which removed three Agency funds from the City's financial statements.
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balances of \$15,471, an increase of \$2,294 in comparison with the prior fiscal year's restated balances. The non-spendable portion of the fund balance was \$44, the restricted portion was \$13,089 and the unassigned amount was \$2,338.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Watsonville's basic financial statements. The City of Watsonville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basis financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Watsonville's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City of Watsonville's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Watsonville is improving or deteriorating overtime.

The *Statement of Activities* presents information showing how the City of Watsonville's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon

as the underlying event giving rise to the change occurs, regardless of the timing or related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Watsonville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Watsonville include general government, public safety, housing, streets, and culture and recreation. The business-type activities of the City of Watsonville include water, sewer, solid waste, and airport activities.

The government-wide financial statements can be found on pages 32 to 35 of this report.

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 of Watsonville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Watsonville can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluation of a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Watsonville maintains twenty individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, impact fees fund, low income housing set-aside fund, redevelopment and housing grant fund, general debt service fund and redevelopment agency debt service fund which are all major funds. Data for the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Watsonville adopts a biennial budget (one year adopted and one year proposed) for all its governmental funds.

The basic governmental fund financial statements can be found on pages 36 to 43 of this report.

Proprietary funds. The City of Watsonville maintains two types of proprietary funds; Enterprise and Internal Service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Watsonville uses enterprise funds to account for Water, Sewer, Solid Waste, and Airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water, sewer, solid waste, and airport operations, all of which are considered to be major funds of the City of Watsonville.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Watsonville's various functions. The City of Watsonville uses an internal service fund to account for insurance activities of the City. The fund predominantly benefits governmental funds rather than business-type functions, and it has been included within governmental activities in the government-wide financial statements. Conversely, the internal service fund is presented in the proprietary funds financial statements.

The basic proprietary funds financial statements can be found on pages 44 to 46 of this report.

Fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties' outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Watsonville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 47-48.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49 to 93 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the combining statements and schedules referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 96 to 110 of this report.

Government-wide Financial Analysis

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Watsonville, assets exceeded liabilities by \$269,246 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net assets (76%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, work in progress, and infrastructure) less any related outstanding debt used to acquire those assets. The City of Watsonville uses these capital assets to provide services to citizens; consequently, these assets

are not available for future spending. Although the City of Watsonville’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.

An additional portion of the City of Watsonville’s net assets (15%) represent resources that are subject to external restrictions on how they may be used by creditors (such as through debt covenants), grantors, contributions or laws or regulations of other governments. The remaining balance of unrestricted net assets \$25,549 may be used to meet the government’s ongoing obligations to citizens and creditors and include items such as reservations for insurance claims and those mandated by the City Charter.

City of Watsonville’s Net Assets
June 30, 2012
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Current and other assets	49,367	50,206	44,465	47,367	93,832	97,573
Capital assets	129,639	130,673	105,305	106,003	234,944	236,676
Total Assets	179,006	180,879	149,770	153,370	328,776	334,249
Long-term liabilities outstanding	11,077	28,636	38,833	40,553	49,910	69,189
Other Liabilities	7,220	11,255	2,399	3,457	9,619	14,712
Total Liabilities	18,297	39,891	41,232	44,010	59,529	83,901
Net Assets:						
Invested in capital assets, net of related debt	128,634	112,462	72,824	74,569	201,458	187,031
Restricted	39,086	46,586	-	2,834	39,086	49,420
Unrestricted	(7,011)	(18,060)	35,714	31,957	28,703	13,897
Total Net Assets	160,709	140,988	108,538	109,360	269,247	250,348

At the end of the current fiscal year, the City of Watsonville is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate business-type activities. The City’s governmental activities showed a negative unrestricted balance of \$10,128.

The government’s restated net assets increased by \$18,786 during the current fiscal year. The government’s governmental activities had an increase in restated net assets of \$19,235. The government’s governmental investment in capital assets net of related debt had an increase of \$16,172. The major cause of the increase in investment in capital assets net of related debt assets was dissolution of the liability of the redevelopment tax increment debt from the calculation of the net assets with the dissolution of redevelopment agencies in the State of California.

The government’s business-type activities restated net assets decreased by (\$449) thousand. The decrease in business-type activities was from the Water and Sewer Funds. Most of the decrease in the water fund was from non capitalized maintenance projects to maintain the water funds infrastructure. The decrease in the sewer fund was from an increase in costs of sales and services of \$895,000.

City of Watsonville
Summary of Changes in Net Assets
For the Fiscal Year Ending June 30, 2012
(in thousands)

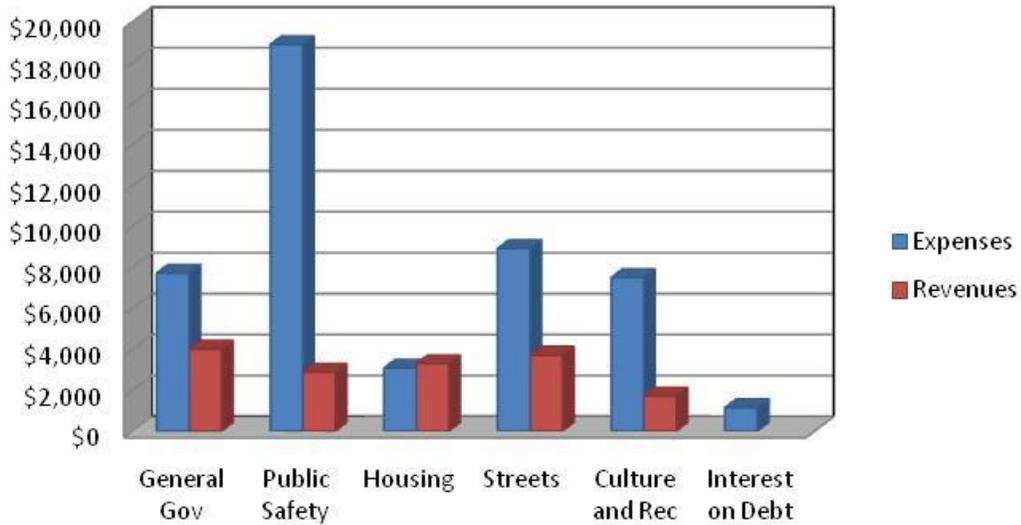
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	6,882	13,628	29,842	29,147	36,724	42,775
Operating grants and contributions	6,906	3,443	990	1,885	7,896	5,328
Capital grants and contributions	962	2,546	172	70	1,134	2,616
General Revenues						
Property taxes	13,825	17,380	-	-	13,825	17,380
Other taxes	15,036	16,523	-	-	15,036	16,523
Others	2,190	873	724	1,116	2,914	1,989
Total Revenues	45,801	54,393	31,728	32,218	77,529	86,611
Expenses:						
General government	7,729	8,010	-	-	7,729	8,010
Public safety	18,888	22,259	-	-	18,888	22,259
Housing	3,091	6,118	-	-	3,091	6,118
Streets	8,926	7,775	-	-	8,926	7,775
Culture and recreation	7,510	7,498	-	-	7,510	7,498
Interest on debt	1,153	3,089	-	-	1,153	3,089
Water	-	-	11,213	11,187	11,213	11,187
Sewer	-	-	9,842	9,342	9,842	9,342
Solid waste	-	-	8,583	8,165	8,583	8,165
Airport	-	-	2,539	2,520	2,539	2,520
Total Expenses	47,297	54,749	32,177	31,214	79,474	85,963
Change in net assets before extraordinary item	(1,496)	(356)	(449)	1,004	(1,945)	648
Extraordinary items	20,731	-	-	-	20,731	-
Change in net assets	19,235	(356)	(449)	1,004	18,786	648
Net assets - beginning	140,988	148,107	109,360	115,264	250,348	263,371
Prior year adjustments	486	(6,763)	(373)	(6,908)	113	(13,671)
Net assets - beginning restated	141,474	141,344	108,987	108,356	250,461	249,700
Net assets ending	160,709	140,988	108,538	109,360	269,247	250,348

Governmental Activities. Governmental activities increased the City of Watsonville's restated net assets by \$19,513, thereby accounting for all the gain in the net assets of the City of Watsonville. Key elements of this increase are as follows:

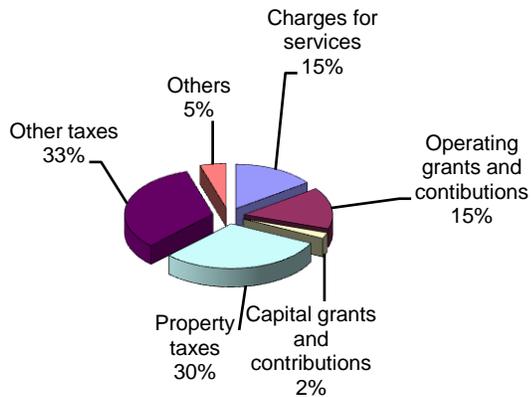
- With the dissolution of the redevelopment agency and removal of its assets, liabilities and net assets from governmental funds, there was a reported extraordinary gain of \$21,009. This change resulted in a decrease in both revenue and expense activity for the fiscal year.
- Governmental revenues were lower by (\$8,592), with the loss of redevelopment property tax a major reason for the decline.
- Governmental expenses declined by (\$7,452), with public safety and housing activities having the largest declines. Housing expenses declined by (\$3,027) from the prior year due

to the dissolution of redevelopment activates. Public safety expenses declined by (\$3,371) from the prior year with the decline in grants activities being a major reason.

Expenses and Program Revenues Governmental Activities



Revenues by Source Governmental Activities



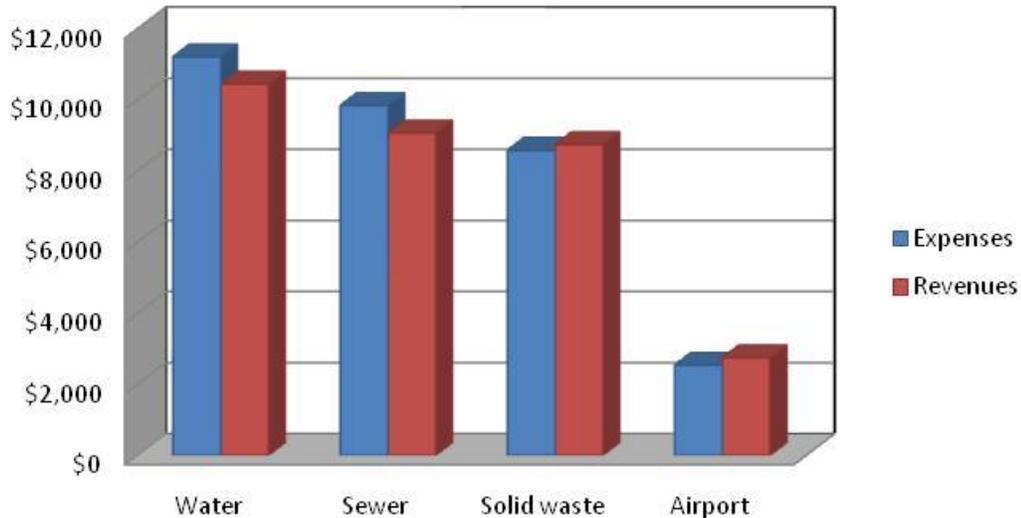
Expenses for general government, public safety, housing, and interest on debt decreased during the fiscal year. General government and public safety decreased due to decreased staffing costs related to salaries as a result of negotiations; while the reduction of housing costs is due to redevelopment agency elimination. Correspondingly, interest on debt decreased with the elimination of the City of Watsonville’s Redevelopment Agency’s debt.

Expenses for streets and culture and recreation increased during the fiscal year. Streets operations increased due to several major projects in the gas tax fund.

Business-type activities. Business-type activities decreased the City of Watsonville’s restated net assets by (\$449). Key elements of this decrease are as follows:

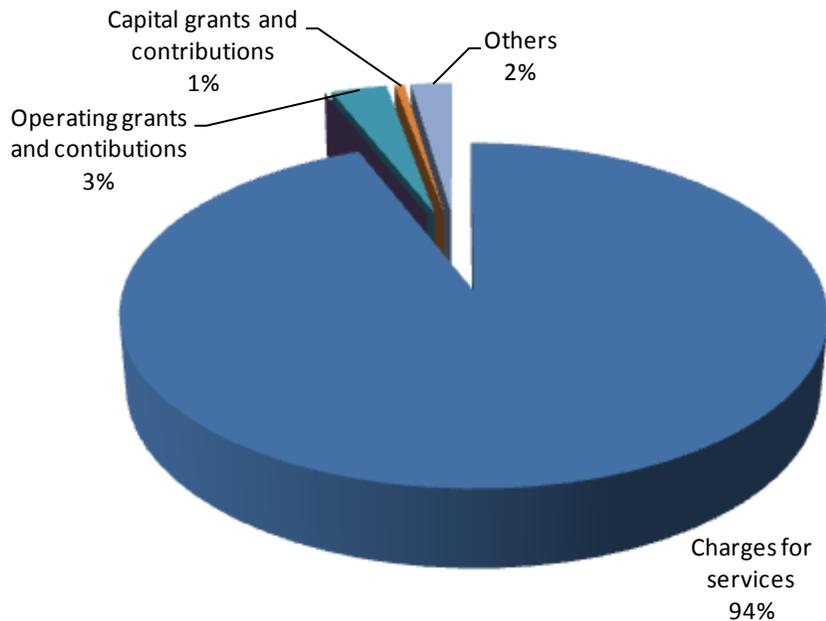
Expenses and Program Revenues

Business-type Activities



- Operating grants and contributions decreased by (\$895) or 53%. The Sewer and Airport Funds had the most significant decreases in operating grants and contributions. The Sewer Fund decrease was due to the decline in several local grants for wetlands restoration. The Airport fund decrease was due to a decline in Federal Aviation grants.
- Other general revenues declined by (\$392) due to the continuing decline in investments earnings.
- Sewer Fund charges for services increased due to the first full year of operating the new water recycling center operations for Pajaro Valley Waster Management Agency (PVWMA). These costs are reimbursed to the fund by PVWMA.
- Solid wastes charges for services increased by (\$418), due mainly to the increasing cost of implementing various new recycling programs required by Federal and State laws.

Revenues by Source Business-type Activities



Financial Analysis of the City of Watsonville's Funds

As noted earlier, the City of Watsonville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Watsonville's governmental funds reported combined ending fund balances of \$15,471, an increase of \$2,294 in comparison with the prior restated fund balances. The largest portion of fund balances is restricted for specific purposes and the largest restricted portion is for impact fees in the amount of \$3,227. This balance is for projects that have been budgeted or planned and will be completed within the next five years. The remainder of fund balances is either non-spendable or unassigned at year end. The non-spendable portion of fund balances represents the amounts of funds that cannot be spent because they are either not in spendable form or legally required to remain intact. Unassigned fund balances represent amounts which are unconstrained in that they may be spent for any purpose.

The *General Fund* is the chief operating fund of the City of Watsonville. At the end of the current fiscal year, the charter reserve of the General Fund was \$2,450. As a measure of the General Fund's liquidity, it may be useful to compare both the charter reserve and total fund balance to total fund expenditures. Charter reserve fund balance is 7.8 percent of total general fund expenditures, while total fund balance represents 13.8 percent of the same amount.

The restated fund balance of the City of Watsonville’s General Fund increased by \$849 during the current fiscal year due to the following key factors:

The General Fund total revenue collection was within .004 percent of projected revenues, with taxes; licenses, permits and fees; fines; interest and miscellaneous revenues all exceeding projected amounts.

The Impact Fees Fund had a fund balance of \$3,227, an increase of \$2,112 over the prior year’s restated balance. This increase was mainly due to funds collection of deferred fees in regards to the struve slough bridge project.

The Housing Fund was established with the dissolution of the state’s redevelopment agencies. The City elected to become the Successor Agency for the redevelopment agency and assumed the assets and liabilities for the housing set-aside fund.

The Redevelopment and Housing Grants Fund has a negative balance of (\$683), an increase of \$608 from the restated beginning fund balance. This increase is the result of timing differences from the time of expending grant funds and receiving reimbursement for those funds.

The government’s Debt Service Fund had a fund balance of \$932, an increase of \$17 during the fiscal year. This increase was from interest revenue earned on bond reserves that will be used in the following year to pay debt services costs.

The redevelopment’s Debt Service Fund was closed out on January 31, 2012 and all the assets and liabilities were transferred as extraordinary items to the new Successor Agency’s Private Purpose Trust Fund.

Proprietary funds. The City of Watsonville’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets and changes of net assets for the four major enterprise funds are as follows:

Proprietary Funds Change of Net Assets

Fund	FY 2012	FY 2011*	Change	% Change
Water	54,320	54,572	(252)	-0.462%
Sewer Solid Waste	45,834	46,473	(639)	-1.375%
	3,071	2,835	236	8.325%
Airport	5,313	5,107	206	4.034%

* FY 2011 figures represent restated balances

Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Watsonville’s business-type activities.

General Fund Budgetary Highlights

There were several midyear budget amendments this fiscal year. The City increased appropriations for the City Council travel allowance by \$7.2, \$30 for a new police vehicle, \$134 for general insurance and compensation insurance and \$29 for the reallocation of a staff person from grant funding to the City Manager division.

Taxes were \$158 over budget. This increase in tax revenue was due to sales tax, and special sales tax being over budgeted amounts. Intergovernmental revenues were (\$462) under budget with the loss of several operating grants within public safety and culture and recreation. Charges for services were over budget by (\$174), with most of that being municipal services charges that were more than expected.

Capital Asset and Debt Administration

Capital assets. The City of Watsonville’s capital assets, for its governmental and business type activities as of June 30, 2012 was \$234,941 (net of depreciation). This represents a \$1,732 decrease from the prior year or 0.73%.

Total City of Watsonville Capital Assets FY 2011-12				
Capital Asset	FY 2012	FY 2011	Change	% Change
Land	36,678	36,678	-	0.00%
Building and Improvements	154,128	167,362	(13,234)	-7.91%
Machinery	14,272	13,556	716	5.28%
Infrastructure	25,294	16,626	8,668	52.14%
Construction in progress	4,569	2,451	2,118	86.41%
Totals	234,941	236,673	(1,732)	-0.73%

The overall total decrease can be attributed to a decrease of 0.79% in Governmental Activities

Governmental Activities Capital Assets FY 2011-12				
Capital Asset	FY 2012	FY 2011	Change	% Change
Land	14,015	14,015	-	0.00%
Building and Improvements	96,764	108,530	(11,766)	-10.84%
Machinery	3,416	3,781	(365)	-9.65%
Infrastructure	13,343	3,968	9,375	236.27%
Construction in progress	2,101	378	1,723	455.82%
Totals	129,639	130,672	(1,033)	-0.79%

While Business Type Activities contributed to this decrease by a decrease of 0.66%

Business Type Activities Capital Assets FY 2011-12

Capital Asset	FY 2012	FY 2011	Change	% Change
Land	22,664	22,664	-	0.00%
Building and Improvements	59,433	58,833	600	1.02%
Machinery	10,856	9,776	1,080	11.05%
Infrastructure	9,884	12,658	(2,774)	-21.91%
Construction in progress	2,468	2,073	395	19.05%
Totals	105,305	106,004	(699)	-0.66%

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 64 to 65 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total net debt outstanding of \$50,996. Of this amount, \$32,949 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds) less bond issuance costs of \$712, and \$575 in special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The other debt for governmental activities is made up of note payable of \$1,714, debt payable of \$3,014, postretirement liability of \$2,723, compensated absences of \$2,057, and \$1,087 for capital leases. Business type activities have \$2,606 in loans, postretirement liability of \$1,040, compensated absences of \$993 and landfill closure/postclosure liability of \$2,949.

All of the outstanding debt of the Redevelopment Agency of the City of Watsonville was removed from the City's long term debt as of January 31, 2012 with the dissolution of redevelopment agencies as noted before. This debt was transferred to the Successor Agency and is being held in a private purpose trust fund.

The City of Watsonville issued Library Special Revenue Certificates of Participation during the 2003-04 fiscal year. At the time of issue, Moody's Investors Services rated the claims paying ability of the insurer as Aaa, on June 5, 2008 they downgrade the rating to Aa3 and Standard and Poor's Rating Service had rated the claims paying ability of the Insurer as AAA and also downgraded their rating to AA on June 19, 2008.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limit for the City of Watsonville is \$91,968 which is significantly in excess of the City of Watsonville's outstanding debt subject to this limit.

Additional information on the City of Watsonville's long-term debt can be found in Note 4 on pages 68 to 79 of this report.

Economic Factors and Next Year's Budget

- Loss or reallocation of revenues to local governments due to the State of California fiscal crisis. Proposition 1A approved by the voters in November 2004 will require voter approval prior to the "taking" of local government revenues or declaration by the Governor and 2/3 approval by the legislature.

- Loss of Federal and State funding for Police Officers.
- Potential loss of sales tax revenues from the slowed economy.
- Loss of property revenues from the reassessment of properties within the City limits by the County of Santa Cruz.
- Possibility of more state revenue takeaways from the City due to the State's inability to correct the structural deficit in their budget.

With all the above factors considered, the City of Watsonville reduced service levels for the next fiscal year, with the decreases effecting all departments and funds. A City wide furlough was implemented for the 2009-10 fiscal year by reducing the work week from 40 hours to 36 hours and closing every Friday (4-day, 9 hour work week) and is still in effect for the 2012/13 fiscal year.

The City also closed down all City services (except of basic health and safety services) for three weeks during the 2012 holiday period to help close the budget gap due to continued declining revenues in the 2012-13 fiscal year.

All of these factors were taken into consideration during the preparation of the City of Watsonville's annual budget for the fiscal year 2012-13.

Request for Information

This financial report is designed to provide a general overview of the City of Watsonville'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 the Administrative Services Director, City of Watsonville, and 250 Main Street, Watsonville, CA 95076.

Basic Financial Statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		Total
	Governmental	Business-type	
	Activities	Activities	
	<u>\$</u>	<u>\$</u>	<u>\$</u>
ASSETS			
Cash and investments	14,412,244	3,288,862	17,701,106
Cash and investments with fiscal agent	774,791	2,469,637	3,244,428
Receivables:			
Interest	1,139,512	1,141,771	2,281,283
Taxes	2,559,514	-	2,559,514
Assessments	575,000	-	575,000
Accounts	564,075	4,715,195	5,279,270
Intergovernmental	2,331,327	184,367	2,515,694
Internal balances	(2,984,714)	2,984,714	-
Loans receivable	28,712,281	29,358,472	58,070,753
Inventories	43,728	321,789	365,517
Deposits	62,000	-	62,000
Land held for resale	1,177,012	-	1,177,012
Capital assets (net of depreciation, where applicable)			
Land	14,014,625	22,663,599	36,678,224
Buildings and Improvements	96,763,524	57,365,155	154,128,679
Machinery	3,416,472	10,856,386	14,272,858
Infrastructure	13,342,624	11,951,854	25,294,478
Construction in progress	2,101,462	2,468,404	4,569,866
Total Assets	<u>179,005,477</u>	<u>149,770,205</u>	<u>328,775,682</u>

See accompanying notes to financial statements

Continued

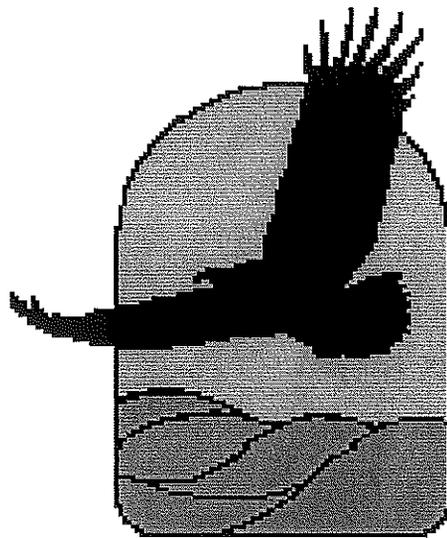
CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
LIABILITIES			
Accounts payable	1,509,287	967,322	2,476,609
Accrued personnel costs	747,810	231,065	978,875
Insurance claims payable	3,545,653	-	3,545,653
Interest payable	48,361	194,140	242,501
Retentions payable	196,331	-	196,331
Unearned revenue	191,393	2,990	194,383
Deposits	980,904	11,106	992,010
Noncurrent liabilities			
Due within one year	1,500,367	2,220,929	3,721,296
Due in more than one year (Net of capitalized discounts and issue costs)	9,576,505	37,604,933	47,181,438
Total Liabilities	18,296,611	41,232,485	59,529,096
NET ASSETS			
Investment in capital assets, net of related debt	128,633,707	72,823,767	201,457,474
Restricted for:			
Debt service	891,650	-	891,650
Impact fee	3,394,070	-	3,394,070
Housing	14,163,122	-	14,163,122
Redevelopment and housing grants	13,285,677	-	13,285,677
Grants, contributions & fees for specific purpose	7,351,566	-	7,351,566
Unrestricted	(7,010,926)	35,713,953	28,703,027
Total Net Assets	160,708,866	108,537,720	269,246,586

See accompanying notes to financial statements

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WATSONVILLE
CALIFORNIA

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs Primary Government:	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
	\$	\$	\$	\$	\$	\$	\$
Governmental activities:							
General government	7,728,940	3,094,869	16,841	-	(4,617,230)	-	(4,617,230)
Public safety	18,887,814	1,702,939	1,187,706	-	(15,997,169)	-	(15,997,169)
Housing	3,090,722	903,080	2,396,046	-	208,404	-	208,404
Streets	8,925,837	15,979	2,739,568	962,344	(5,207,946)	-	(5,207,946)
Culture and recreation	7,510,504	1,165,195	565,424	-	(5,779,885)	-	(5,779,885)
Interest on long term debt	1,153,295	-	-	-	(1,153,295)	-	(1,153,295)
Total government activities	<u>47,297,112</u>	<u>6,882,062</u>	<u>6,905,585</u>	<u>962,344</u>	<u>(32,547,121)</u>	<u>-</u>	<u>(32,547,121)</u>
Business-type activities							
Water	11,212,983	10,119,068	154,395	171,783	-	(767,737)	(767,737)
Sewer	9,841,887	8,782,368	285,153	-	-	(774,366)	(774,366)
Solid Waste	8,583,383	8,711,686	34,500	-	-	162,803	162,803
Airport	2,539,033	2,228,985	515,670	-	-	205,622	205,622
Total business-type activities	<u>32,177,286</u>	<u>29,842,107</u>	<u>989,718</u>	<u>171,783</u>	<u>-</u>	<u>(1,173,678)</u>	<u>(1,173,678)</u>
Total primary government	<u>79,474,398</u>	<u>36,724,169</u>	<u>7,895,303</u>	<u>1,134,127</u>	<u>(32,547,121)</u>	<u>(1,173,678)</u>	<u>(33,720,799)</u>
General revenues:							
Property taxes					13,825,135	-	13,825,135
Sales taxes					9,774,217	-	9,774,217
Franchise taxes					708,368	-	708,368
Motor/vehicle taxes					1,521,473	-	1,521,473
Utility users taxes					2,933,759	-	2,933,759
Other taxes					97,940	-	97,940
Unrestricted investment earnings					2,189,925	724,635	2,914,560
Total general revenues					<u>31,050,816</u>	<u>724,635</u>	<u>31,775,451</u>
Change in net assets before extraordinary items					(1,496,305)	(449,043)	(1,945,348)
Extraordinary items					20,731,328	-	20,731,328
Change in net assets					<u>19,235,023</u>	<u>(449,043)</u>	<u>18,785,980</u>
Net assets - beginning					140,987,616	109,360,181	250,347,797
Prior period adjustments					486,227	(373,418)	112,809
Net assets - beginning, restated					<u>141,473,843</u>	<u>108,986,763</u>	<u>250,460,606</u>
Net assets - ending					<u>160,708,866</u>	<u>108,537,720</u>	<u>269,246,586</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2012

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS		OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING	GENERAL	REDEVELOPMENT		
				GRANTS				
\$	\$	\$	\$	\$	\$	\$	\$	
ASSETS:								
Cash and investments	5,555,008	2,939,208	433,050	-	151,428	-	5,333,550	14,412,244
Cash and investments with fiscal agent	-	-	-	-	774,791	-	-	774,791
Receivables:								
Interest	37,930	-	662,207	377,641	-	-	61,734	1,139,512
Taxes	2,019,160	-	-	-	6,021	-	534,333	2,559,514
Deferred assessments	-	-	-	-	575,000	-	-	575,000
Accounts	381,651	6,149	2,036	-	-	-	50,461	440,297
Intergovernmental	1,156,521	167,239	-	218,519	-	-	789,048	2,331,327
Due from other funds	2,449,051	-	-	-	-	-	785,451	3,234,502
Advances receivable	-	414,252	-	-	-	-	1,011,235	1,425,487
Loans receivable	141,466	-	11,889,370	14,979,171	-	-	1,702,274	28,712,281
Inventories	43,728	-	-	-	-	-	-	43,728
Land held for resale	-	-	1,177,012	-	-	-	-	1,177,012
Total Assets	11,784,515	3,526,848	14,163,675	15,575,331	1,507,240	-	10,268,086	56,825,695
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	590,280	26,244	-	12,456	-	-	799,748	1,428,728
Accrued personnel costs	464,610	457	82	9,784	-	-	11,884	486,817
Retentions payable	103,900	-	-	-	-	-	92,431	196,331
Due to other funds	-	106,077	-	785,451	-	-	1,410,530	2,302,058
Advances payable	4,410,201	-	-	-	-	-	-	4,410,201
Deferred revenue	814,985	167,239	11,921,638	15,448,236	575,000	-	2,430,938	31,358,036
Unearned revenue	187,975	-	-	2,070	-	-	1,348	191,393
Deposits	864,027	-	471	-	-	-	116,406	980,904
Total Liabilities	7,435,978	300,017	11,922,191	16,257,997	575,000	-	4,863,285	41,354,468
Fund Balances:								
Nonspendable:								
Inventories	43,728	-	-	-	-	-	-	43,728
Restricted for:								
Debt service	-	-	-	-	932,240	-	-	932,240
Impact fees	-	3,226,831	-	-	-	-	-	3,226,831
Housing	-	-	2,241,484	-	-	-	-	2,241,484
Gas tax	-	-	-	-	-	-	1,481,967	1,481,967
Narcotics assets seizure	-	-	-	-	-	-	58,347	58,347
Business development	-	-	-	-	-	-	183,041	183,041
Rental rehabilitation	-	-	-	-	-	-	497,179	497,179
Library	-	-	-	-	-	-	1,400,820	1,400,820
Parks development	-	-	-	-	-	-	1,011,876	1,011,876
Business booster loan program	-	-	-	-	-	-	281,022	281,022
Inclusionary housing	-	-	-	-	-	-	1,775,051	1,775,051
Unassigned	4,304,809	-	-	(682,666)	-	-	(1,284,502)	2,337,641
Total Fund Balances	4,348,537	3,226,831	2,241,484	(682,666)	932,240	-	5,404,801	15,471,227
Total Liabilities and Fund Balances	11,784,515	3,526,848	14,163,675	15,575,331	1,507,240	-	10,268,086	56,825,695

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET ASSETS
JUNE 30,2012

	<u>\$</u>
Amounts Reported For Governmental Activities To The Statement Of Net Assets Are Different Because:	
Fund Balances Of Governmental Funds. (Page 36)	15,471,227
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	186,931,414
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(57,292,707)
Internal Service Fund Is Used By Management To Charge The Costs Of Insurances To Individual Funds. The Assets And Liabilities Of The Internal Service Fund Are Included In Governmental Activities In The Statement Of Net Assets.	(4,633,871)
Loans, Intergovernmental And Assessment Receivables Recorded As Deferred Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities.	31,358,036
Long-term Debt Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(11,170,157)
Bond Issuance Costs are Expensed In Year Of Issuance Therefore Not Reported In Governmental Funds.	93,285
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(48,361)
Net Assets Of Governmental Funds. (Page 33)	<u><u>160,708,866</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS		OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT	GENERAL	REDEVELOPMENT		
				AND HOUSING GRANTS				
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	19,417,951	-	-	-	-	2,755,784	6,687,156	28,860,891
Licenses, permits, and fees	2,425,225	287,798	-	-	-	-	559,004	3,272,027
Intergovernmental	1,450,733	2,656,823	-	2,066,246	-	-	1,494,697	7,668,499
Charges for services	4,773,202	-	-	-	-	-	-	4,773,202
Fines	804,056	-	-	-	-	-	-	804,056
Interest	2,189,924	82,745	2,304	186	-	-	69,260	2,344,419
Special assessment	-	-	-	-	171,703	-	-	171,703
Miscellaneous	358,432	-	223,408	-	-	-	373,920	955,760
Total revenues	31,419,523	3,027,366	225,712	2,066,432	171,703	2,755,784	9,184,037	48,850,557
EXPENDITURES:								
Current:								
General government	5,763,514	-	-	-	-	-	398,942	6,162,456
Public safety	20,336,001	-	-	-	-	-	-	20,336,001
Housing	-	-	5,009	1,122,574	-	-	2,063,385	3,190,968
Streets	5,443,228	922,198	-	-	-	-	3,105,975	9,471,401
Culture and recreation	4,266,903	-	-	-	-	-	2,509,740	6,776,643
Debt service:								
Principal	-	-	-	-	1,189,088	949,579	-	2,138,667
Interest and fiscal charges	-	-	-	-	238,499	1,028,081	-	1,266,580
Total expenditures	35,809,646	922,198	5,009	1,122,574	1,427,587	1,977,660	8,078,042	49,342,716
Excess (deficiency) of revenues over (under) expenditures	(4,390,123)	2,105,168	220,703	943,858	(1,255,884)	778,124	1,105,995	(492,159)
OTHER FINANCING SOURCES (USES)								
Loan Proceeds	3,014,285	-	-	-	-	-	-	3,014,285
Transfers in	2,225,184	29,850	-	-	1,273,145	132,450	2,222,321	5,882,950
Transfers out	-	(23,140)	-	(335,905)	-	(1,896,546)	(3,627,359)	(5,882,950)
Total other financing sources (uses)	5,239,469	6,710	-	(335,905)	1,273,145	(1,764,096)	(1,405,038)	3,014,285
Net change in fund balances before extraordinary items	849,346	2,111,878	220,703	607,953	17,261	(985,972)	(299,043)	2,522,126
SPECIAL ITEM								
Gain/Loss on transfer of Redevelopment Agency Housing Assets	-	-	2,020,781	-	-	-	(2,020,781)	-
EXTRAORDINARY ITEM								
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	-	-	-	-	(1,134,040)	906,040	(228,000)
Net change in fund balances	849,346	2,111,878	2,241,484	607,953	17,261	(2,120,012)	(1,413,784)	2,294,126
Fund balances, July 1	1,598,588	1,114,953	-	(1,290,619)	914,979	2,149,052	6,548,610	11,035,563
Prior period adjustments	1,900,603	-	-	-	-	(29,040)	269,975	2,141,538
Fund balances, July 1, as restated	3,499,191	1,114,953	-	(1,290,619)	914,979	2,120,012	6,818,585	13,177,101
Fund balances, June 30	4,348,537	3,226,831	2,241,484	(682,666)	932,240	-	5,404,801	15,471,227

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>\$</u>
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Net Change In Fund Balance - Total Governmental Funds (Page 38)	2,522,126
Governmental Funds Report Capital Outlay As Expenditures However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense. This Is The Amount By Which Capital Outlays Exceeded Depreciation In The Current Period And Costs of Capital Assets Disposed In The Current Year.	(1,033,803)
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	(3,049,751)
The Issuance Of Long-term Debt (e.g., Bonds) Provides Current Financial Resources To Governmental Funds, While The Repayment Of The Principal Of Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. Neither Transaction, However Has Any Effect On Net Assets. This Is The Amount Of Debt Proceeds	(3,014,285)
This Amount Is The Repayment Of Principal.	2,138,667
This Amount Is The Amortization Of Bonds Issuance Costs	43,784
This Amount Of Post Retirement Costs	(446,509)
This Amount Of Compensated Absences	(123,418)
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	1,475,795
Interest Expense Reported In The Statement Of Activities Does Not Require The Use Of Current Financial Resources And, Therefore Is Not Reported As An Expenditure In Governmental Funds.	<u>(8,911)</u>
Change In Net Assets Of Governmental Funds. (Page 35)	<u><u>(1,496,305)</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$		
REVENUES:				
Taxes	19,260,085	19,260,085	19,417,951	157,866
Licenses, permits, and fees	2,346,201	2,346,201	2,425,225	79,024
Intergovernmental	1,912,502	1,912,502	1,450,733	(461,769)
Charges for services	4,947,069	4,947,069	4,773,202	(173,867)
Fines	797,800	797,800	804,056	6,256
Interest	2,082,400	2,082,400	2,189,924	107,524
Miscellaneous	212,460	212,460	358,432	145,972
Total revenues	31,558,517	31,558,517	31,419,523	(138,994)
EXPENDITURES:				
Current:				
General government	5,635,000	5,698,766	5,763,514	(64,748)
Public safety	21,119,916	21,212,411	20,336,001	876,410
Streets	6,517,057	6,532,275	5,443,228	1,089,047
Culture and recreation	4,202,002	4,210,923	4,266,903	(55,980)
Total expenditures	37,473,975	37,654,375	35,809,646	1,844,729
Excess (deficiency) of revenues over (under) expenditures	(5,915,458)	(6,095,858)	(4,390,123)	1,705,735
OTHER FINANCING SOURCES (USES)				
Loan proceeds	3,015,000	3,015,000	3,014,285	(715)
Transfers in	2,199,724	2,199,724	2,225,184	25,460
Total other financing sources (uses)	5,214,724	5,214,724	5,239,469	24,745
Net change in fund balance	(700,734)	(881,134)	849,346	1,730,480
Fund balance, July 1	1,598,588	1,598,588	1,598,588	-
Prior period adjustments	-	-	1,900,603	1,900,603
Fund balance July 1, as restated	1,598,588	1,598,588	3,499,191	1,900,603
Fund balance, June 30	897,854	717,454	4,348,537	3,631,083

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
IMPACT FEES FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Licenses, permits, and fees	275,000	275,000	287,798	12,798
Intergovernmental	132,000	132,000	2,656,823	2,524,823
Interest	106,500	106,500	82,745	(23,755)
Total revenues	<u>513,500</u>	<u>513,500</u>	<u>3,027,366</u>	<u>2,513,866</u>
EXPENDITURES:				
	<u>2,769,647</u>	<u>2,769,647</u>	<u>922,198</u>	<u>1,847,449</u>
Total expenditures	<u>2,769,647</u>	<u>2,769,647</u>	<u>922,198</u>	<u>1,847,449</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,256,147)</u>	<u>(2,256,147)</u>	<u>2,105,168</u>	<u>4,361,315</u>
OTHER FINANCING SOURCES (USES):				
Transfer In	22,961	22,961	29,850	6,889
Transfers out	<u>(23,140)</u>	<u>(23,140)</u>	<u>(23,140)</u>	<u>-</u>
Total other financing sources (uses)	<u>(179)</u>	<u>(179)</u>	<u>6,710</u>	<u>6,889</u>
Net change in fund balance	(2,256,326)	(2,256,326)	2,111,878	4,368,204
Fund balance, July 1	<u>1,114,953</u>	<u>1,114,953</u>	<u>1,114,953</u>	<u>-</u>
Fund balance, June 30	<u><u>(1,141,373)</u></u>	<u><u>(1,141,373)</u></u>	<u><u>3,226,831</u></u>	<u><u>4,368,204</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Interest	-	-	2,304	2,304
Miscellaneous	-	-	223,408	223,408
Total revenues	-	-	225,712	225,712
EXPENDITURES:				
Current:				
Housing	-	-	5,009	(5,009)
Total expenditures	-	-	5,009	(5,009)
Net change in fund balances before special items	-	-	220,703	220,703
SPECIAL ITEM				
Gain/Loss on transfer of Redevelopment Agency Housing Assets	-	-	2,020,781	2,020,781
Net change in fund balances	-	-	2,241,484	2,241,484
Fund balances, July 1	-	-	-	-
Fund balances, June 30	-	-	2,241,484	2,241,484

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
REDEVELOPMENT AND HOUSING GRANTS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Intergovernmental	1,965,941	1,965,941	2,066,246	100,305
Interest	-	-	186	186
Total revenues	<u>1,965,941</u>	<u>1,965,941</u>	<u>2,066,432</u>	<u>100,491</u>
EXPENDITURES:				
Current:				
Housing	<u>2,668,260</u>	<u>2,685,260</u>	<u>1,122,574</u>	<u>1,562,686</u>
Total expenditures	<u>2,668,260</u>	<u>2,685,260</u>	<u>1,122,574</u>	<u>1,562,686</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(702,319)</u>	<u>(719,319)</u>	<u>943,858</u>	<u>1,663,177</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(353,167)</u>	<u>(353,167)</u>	<u>(335,905)</u>	<u>17,262</u>
Total other financing sources (uses)	<u>(353,167)</u>	<u>(353,167)</u>	<u>(335,905)</u>	<u>17,262</u>
Net change in fund balances	(1,055,486)	(1,072,486)	607,953	1,680,439
Fund balance, July 1	<u>(1,290,619)</u>	<u>(1,290,619)</u>	<u>(1,290,619)</u>	-
Fund balance, June 30	<u><u>(2,346,105)</u></u>	<u><u>(2,363,105)</u></u>	<u><u>(682,666)</u></u>	<u><u>1,680,439</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER \$	SEWER \$	SOLID WASTE \$	AIRPORT \$	TOTALS \$	\$
ASSETS						
Current Assets:						
Cash and investments	427,159	2,184,961	675,592	1,150	3,288,862	-
Cash and investments with fiscal agent	2,350,726	49,250	69,661	-	2,469,637	-
Receivables:						
Interest	1,141,771	-	-	-	1,141,771	-
Accounts	1,572,717	2,287,773	733,073	121,632	4,715,195	123,778
Loans	-	50,466	-	-	50,466	-
Intergovernmental	175,967	-	8,400	-	184,367	-
Due from other funds	-	-	3,852,136	-	3,852,136	-
Deposits	-	-	-	-	-	62,000
Inventories	250,039	-	467	71,283	321,789	-
Total Current Assets	5,918,379	4,572,450	5,339,329	194,065	16,024,223	185,778
Noncurrent Assets						
Advances receivable	933,166	701,400	1,350,148	-	2,984,714	-
Loan receivable	28,260,294	1,047,712	-	-	29,308,006	-
Capital assets:						
Land and improvements	5,698,697	8,943,006	438,000	7,583,896	22,663,599	-
Buildings	37,915,627	29,417,748	4,107,495	8,791,900	80,232,770	-
Machinery and equipment	8,474,136	3,605,196	6,205,142	287,199	18,571,673	-
Infrastructure	12,867,724	38,357,590	1,019,969	1,941,125	54,186,408	-
Construction in progress	2,209,612	-	-	258,792	2,468,404	-
Accumulated depreciation	(18,061,482)	(37,578,521)	(8,074,030)	(9,103,423)	(72,817,456)	-
Total Capital Assets (Net of accumulated depreciation)	49,104,314	42,745,019	3,696,576	9,759,489	105,305,398	-
Total Noncurrent Assets	78,297,774	44,494,131	5,046,724	9,759,489	137,598,118	-
Total Assets	84,216,153	49,066,581	10,386,053	9,953,554	153,622,341	185,778
LIABILITIES						
Current Liabilities:						
Accounts payable	508,393	273,642	150,412	34,875	967,322	80,559
Accrued personnel costs	51,837	111,408	52,601	15,219	231,065	260,993
Insurance claims payable	-	-	-	-	-	3,545,653
Interest payable	166,307	10,147	17,686	-	194,140	-
Unearned revenue	-	-	-	2,990	2,990	-
Due to other funds	-	-	-	3,852,136	3,852,136	932,444
Due to other governments	-	-	-	-	-	-
Customer deposits	11,106	-	-	-	11,106	-
Current maturities of long term debt:						
Compensated Absences	13,745	24,846	18,064	2,906	59,561	-
Liability for landfill closure	-	-	59,500	-	59,500	-
Revenue Bonds	-	489,974	667,272	-	1,157,246	-
City of Watsonville Loan	558,220	-	-	386,402	944,622	-
Total Current Liabilities	1,309,608	910,017	965,535	4,294,528	7,479,688	4,819,649
Noncurrent Liabilities:						
Compensated Absences	215,333	389,247	282,998	45,534	933,112	-
Post retirement	261,043	368,853	341,254	68,745	1,039,895	-
Liability for landfill closure	-	-	2,890,015	-	2,890,015	-
City of Watsonville Loan	1,429,676	-	-	232,192	1,661,868	-
Revenue bonds payable (Net of capitalized discounts and issue costs)	26,680,462	1,564,383	2,835,198	-	31,080,043	-
Total Noncurrent Liabilities	28,586,514	2,322,483	6,349,465	346,471	37,604,933	-
Total Liabilities	29,896,122	3,232,500	7,315,000	4,640,999	45,084,621	4,819,649
Net Assets						
Investment in capital assets (Net of related debt)	22,292,791	40,739,912	263,767	9,527,297	72,823,767	-
Unrestricted	32,027,240	5,094,169	2,807,286	(4,214,742)	35,713,953	(4,633,871)
Total Net Assets	54,320,031	45,834,081	3,071,053	5,312,555	108,537,720	(4,633,871)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES:						
Charges for services	10,119,068	8,782,368	8,711,686	2,228,985	29,842,107	7,651,582
Total Operating Revenue	10,119,068	8,782,368	8,711,686	2,228,985	29,842,107	7,651,582
OPERATING EXPENSES:						
Costs of sales and services	6,628,551	8,371,992	7,376,439	2,262,894	24,639,876	6,175,787
Depreciation	1,545,646	1,365,505	654,343	209,830	3,775,324	-
Total Operating Expenses	8,174,197	9,737,497	8,030,782	2,472,724	28,415,200	6,175,787
Operating Income (Loss)	1,944,871	(955,129)	680,904	(243,739)	1,426,907	1,475,795
NONOPERATING REVENUES (EXPENSES)						
Lease revenue	-	-	-	467,422	467,422	-
Grant revenue	-	224,768	34,500	48,248	307,516	-
Interest revenue	515,547	135,846	73,242	-	724,635	-
Interest expense	(1,449,929)	(100,004)	(233,219)	(66,309)	(1,849,461)	-
Miscellaneous expenses	(1,588,857)	-	-	-	(1,588,857)	-
Landfill usage	-	-	(313,171)	-	(313,171)	-
Amortization	-	(4,386)	(6,211)	-	(10,597)	-
Total Nonoperating Revenues (expenses)	(2,523,239)	256,224	(444,859)	449,361	(2,262,513)	-
Income Before Contributions						
Capital contributions -						
Grants	171,783	-	-	-	171,783	-
Connection fees	154,395	60,385	-	-	214,780	-
Changes in Net Assets	(252,190)	(638,520)	236,045	205,622	(449,043)	1,475,795
Total Net Assets - Beginning	53,129,325	47,635,589	2,882,591	5,712,676	109,360,181	(6,109,666)
Prior period adjustments	1,442,896	(1,162,988)	(47,583)	(605,743)	(373,418)	-
Total Net Assets - Beginning, as restated	54,572,221	46,472,601	2,835,008	5,106,933	108,986,763	(6,109,666)
Total Net Assets - Ending	54,320,031	45,834,081	3,071,053	5,312,555	108,537,720	(4,633,871)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER \$	SEWER \$	SOLID WASTE \$	AIRPORT \$	TOTALS \$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	10,432,388	7,550,055	8,711,686	2,135,101	28,829,230	-
Receipts from interfund services provided	-	-	-	-	-	7,651,582
Payments to suppliers	(4,231,523)	(4,190,099)	(4,066,185)	(2,269,772)	(14,757,579)	(7,680,612)
Payments to employees	(2,875,881)	(4,275,286)	(2,617,855)	(626,292)	(10,395,314)	-
Payment for interfund services used	(103,476)	(28,985)	(565,796)	(18,535)	(716,792)	-
Net cash provided by operating activities	<u>3,221,508</u>	<u>(944,315)</u>	<u>1,461,850</u>	<u>(779,498)</u>	<u>2,959,545</u>	<u>(29,030)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Non operating expenses	(1,588,857)	-	(222,331)	-	(1,811,188)	-
Transfers to other funds	-	-	(3,852,136)	-	(3,852,136)	-
Transfers from other funds	-	-	-	970,113	970,113	(220,970)
Net cash provided (used) by noncapital financing activities	<u>(1,588,857)</u>	<u>-</u>	<u>(4,074,467)</u>	<u>970,113</u>	<u>(4,693,211)</u>	<u>(220,970)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(1,933,179)	(236,762)	(648,824)	(258,793)	(3,077,558)	-
Connection fees	154,395	60,385	-	-	214,780	-
Grant revenue	171,783	224,768	34,500	48,248	479,299	-
Principal paid on long term debt	(460,577)	(523,566)	(582,831)	(381,183)	(1,948,157)	-
Interest paid on long term debt	(1,449,929)	(102,460)	(236,607)	(66,309)	(1,855,305)	-
Net cash provided (used) by capital and related financing activities	<u>(3,517,507)</u>	<u>(577,635)</u>	<u>(1,433,762)</u>	<u>(658,037)</u>	<u>(6,186,941)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Lease revenue	-	-	-	467,422	467,422	-
Interest received	138,214	135,846	73,242	-	347,302	-
Net cash provided (used) by investment activities	<u>138,214</u>	<u>135,846</u>	<u>73,242</u>	<u>467,422</u>	<u>814,724</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,746,642)</u>	<u>(1,386,104)</u>	<u>(3,973,137)</u>	<u>-</u>	<u>(7,105,883)</u>	<u>(250,000)</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>4,524,527</u>	<u>3,620,315</u>	<u>4,718,390</u>	<u>1,150</u>	<u>12,864,382</u>	<u>250,000</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>2,777,885</u>	<u>2,234,211</u>	<u>745,253</u>	<u>1,150</u>	<u>5,758,499</u>	<u>-</u>
Reconciliation of Statement of Net Assets:						
Cash and investments	2,350,726	2,184,961	675,592	1,150	5,212,429	-
Cash and investments with fiscal agent	427,159	49,250	69,661	-	546,070	-
	<u>2,777,885</u>	<u>2,234,211</u>	<u>745,253</u>	<u>1,150</u>	<u>5,758,499</u>	<u>-</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income	1,944,871	(955,129)	680,904	(243,739)	1,426,907	1,475,795
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	1,545,646	1,365,505	654,343	209,830	3,775,324	-
(Increase) decrease in receivables	597,227	(1,429,112)	(35,324)	(17,151)	(884,360)	33,914
(Increase) decrease in inventories	42,953	-	2,330	32,262	77,545	-
(Increase) decrease in loans receivable	-	196,799	-	-	196,799	-
(Increase) decrease in due from other governments	(283,907)	-	2,300	42,751	(238,856)	-
(Increase) decrease in advance receivable	(503,692)	209,556	-	-	(294,136)	(250,000)
Increase (decrease) in accounts payable	(54,018)	(206,790)	207,615	(688,665)	(741,858)	(36,797)
Increase (decrease) in claims payable	-	-	-	-	-	(1,413,989)
Increase (decrease) in deferred revenue	-	-	-	(111,035)	(111,035)	-
Increase (decrease) in accrued personnel costs	(114,288)	(188,943)	(103,485)	(15,903)	(422,619)	162,047
Increase (decrease) in customer deposits	1,145	-	-	-	1,145	-
Increase (decrease) in post retirement	45,571	63,799	53,167	12,152	174,689	-
Total adjustments	<u>1,276,637</u>	<u>10,814</u>	<u>780,946</u>	<u>(535,759)</u>	<u>1,532,638</u>	<u>(1,504,825)</u>
Net cash provided (used) by operating activities	<u>3,221,508</u>	<u>(944,315)</u>	<u>1,461,850</u>	<u>(779,498)</u>	<u>2,959,545</u>	<u>(29,030)</u>
NONCASH INVESTING ACTIVITIES:						
Landfill postclosure liability amortization	-	-	\$128,809	-	\$128,809	-
Landfill usage	-	-	59,920	-	59,920	-
Capitalized discounts and issue costs	-	\$4,386	6,211	-	10,597	-

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PRIVATE PURPOSE TRUST FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

ASSETS	\$
Cash and Investments with Fiscal Agent	1,894,711
Restricted Cash	1,279,204
Receivables	
Interest	21,929
Notes	410,000
Total Assets	3,605,844
 LIABILITIES	
Current Liabilities	
Accounts Payable	20,714
Salaries Payable	3,116
Interest Payable	342,923
Loan to City of Watsonville	137,716
Debt Payable	70,951
Bonds Payable	910,000
Total Current Liabilities	1,485,420
Noncurrent liabilities	
Notes Payable	1,823,475
Post Retirement	64,461
Debt Payable	337,747
Bonds Payable	19,511,487
Total Non Current liabilities	21,737,170
Total Liabilities	23,222,590
 Net Assets	
Unrestricted	(19,481,096)
Total Net Assets	(19,481,096)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PRIVATE TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

	\$
ADDITIONS:	
Interest Income	201
Intergovernment	1,279,204
Other Revenue	141
Total Additions	<u>1,279,546</u>
DEDUCTIONS:	
Net Assets Received upon Dissolution of Redevelopment Agency Administration	20,731,328
Pass Through Taxes	29,314
Total Deductions	<u>20,760,642</u>
Change in Net Assets	(19,481,096)
Net Assets, July 1, 2011	<u>-</u>
Net Assets June 30, 2012	<u><u>(19,481,096)</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting entity

The City of Watsonville (government) is a municipal corporation governed by a seven-member council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Unit The Redevelopment Agency of the City of Watsonville is responsible for the revitalization and removal of blight from the project area, which encompasses most of the government and is governed by a board comprised of the government's elected council. Property tax increment is used to fund the Agency's activities, derived from the increased property tax assessments since the Agency's creation. The activity of the Agency is presented in two Special Revenue Funds (Redevelopment and Housing Set-Aside) and a Debt Service Fund (Redevelopment Debt Service). The activities of the Agency were transferred to the Redevelopment Agency's Successor Agency on February 1, 2012. See page 86 of the notes for more information.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. 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 support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among programs revenues are reported instead as general

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

revenues. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and special purpose trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The Impact Fees Fund is assessed at the time of development and is used to mitigate certain increased costs incurred by the government as development occurs. These funds are then used to increase the capacity of roads, build fire stations, public safety equipment, or other governmental facilities. The receipt and disbursement of these fees are recorded in this fund.

The Housing Fund is used for low and moderate-income housing projects.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

The Redevelopment and Housing Grants Fund provides assistance to low and moderate-income individuals via grants. These grants offer a number of housing programs to help low to moderate income Watsonville residents improve their housing condition.

The General Debt Service Fund receives funds for the payment of governmental debt of the government.

The Redevelopment Debt Service Fund receives funds from the Agency's funds for the payment of debt.

The government reports the following major proprietary funds:

The Water Fund records the receipt of revenues for water services and records the associated expenses or capital investment. The water service provides water to Watsonville and the surrounding communities, which has a service population of approximately 50,000.

The Sewer Fund records the activity of the government's wastewater treatment plant and collection system. The fund also provides waste treatment services to other local sanitary districts, namely Freedom, Salsipuedes, and Pajaro Utility Districts. Thus, the wastewater plant services some 55,000 residents.

The Solid Waste Fund records the activities of refuse collection, recycling, and landfill operations. The landfill is located near the County landfill and is used only by the citizens of the City of Watsonville.

The Airport Fund represents the activities at the airport and the receipt of Federal Aviation Agency (FAA) grants. The fund is to be supported by the fees the airport collects from fuel sales and facility use fees. The FAA provides substantial grant income for general airport improvements.

Additionally, the government reports the following fund type:

The Internal Service Fund is used to account for financing of insurance services provided to other government funds and departments on a cost reimbursement basis.

The Private Purpose Trust Fund is used to account for the transactions of the Successor Agency of the City of Watsonville Redevelopment Agency.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water, sewer, and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various foundations concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds principal ongoing operations. The principal operating revenues of the governments enterprise funds and of the government's internal service fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts for revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the following types of investments:

- Securities of the US Government, or its agencies

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan institutions like institutions such as credit unions
- Local Agency Investment Fund (State Pool)
- Repurchase agreements (repos) for a term of one year or less
- Passbook Savings Account Demand Deposits
- Debt of the City of Watsonville
- Negotiable Certificates of Deposits
- Bankers' Acceptances

Investments for the government as well as for its component unit, are reported at fair value. The State Treasurers Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The government has funds held by trustees or fiscal agents pledged to the payment or security of certain bonds and certificates of participation. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agent may make.

Cash and cash equivalents

The cash flow statements require presentation of “cash and cash equivalents”. For the purposes of the statement of cash flows, the government considers all proprietary funds pooled cash and investments and cash and investments with fiscal agent as “cash and cash equivalents”.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes are levied and collected by the County of Santa Cruz and paid upon collection to the various taxing entities including the City and Redevelopment Agency. Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. Unsecured taxes are due on July 1 and become delinquent on August 31. The City recognizes property tax revenues when they become measurable and available for the payment of claims in the current period.

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Land held for resale

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance current operations.

5. Capital assets

Capital assets, which include property, plant and equipment, and infrastructure, (e.g., bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems), and construction in progress are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

The costs for normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20 to 50 years
Buildings	20 to 50 years
Improvements	20 to 50 years
Machinery and Equipment	3 to 10 years

6. Compensated absences

It is the government's policy to allow most employee groups to accumulate sick leave to a maximum of 1,000 hours. Sick leave accumulated above this maximum is paid to employees at 50% of such excess in December. The balance of such unused sick leave is lost and the sick leave accrual is reduced to 1,000 hours at January 1 of each year. Earned vacation time is accumulated up to two times the employee's annual accrual rate and unused vacation is paid at the employee's hourly rate upon termination.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

The maximum accumulation, for fire-fighters on shift duty, of unused sick leave is 62.5 days (1,500 hours). Sick leave accumulation in any calendar year in excess of 1,500 hours shall be paid at the rate of 50% of such excess. The balance of such unused sick leave is lost and the sick leave accrual is reduced to 1,500 hours at January 1 of each year.

The City accrues for compensated absences in the government-wide and proprietary fund financial statements for which they are liable to make payment directly. The General fund, Inclusionary Housing fund, and all 4 Enterprise funds incurred costs associated with compensated absences during the last fiscal year.

7. Interfund transactions

A description of the basic two types of the City's interfund transactions during the fiscal year and the related accounting policies are set forth as follows:

1. Transactions related directly to services rendered, or facilities provided, are recorded as revenues in the fund providing the service or facility and expenditures (or expenses) in the fund receiving them.
2. Transactions to allocate resources from one fund to another, not contingent on the occurrence of specific expenditures in the receiving fund, are recorded appropriately as transfers in and transfers out in the respective funds.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City’s governing board. Committed amounts cannot be used for any purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purpose with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the government board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purpose in accordance with the nature of their type or the fund’s primary purpose. An assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the City.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of commitments made, which include future funding sources for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balance are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain difference between the governmental funds balance sheet and the government-wide statement of net assets.

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. Two elements of that reconciliation explains that 1) capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds and 2) long-term debt, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

The details of 1) \$186,931,414 differences are as follows:

Capital Assets:

Land	\$14,014,625
Buildings and improvements	144,762,017

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Machinery and equipment	11,511,463
Infrastructure	14,541,847
Construction in progress	<u>2,101,462</u>
Total	<u>\$186,931,414</u>

The details of 2) (\$11,170,157) differences are as follows:

Long-term Debt:

Compensated Absences	(\$2,056,970)
Santa Cruz County Bank Loan	(3,014,285)
Capital leases	(1,086,960)
Sec 108 loan	(1,714,000)
Postretirement	(2,722,942)
Special assessment bonds	<u>(575,000)</u>
Total	<u>(\$11,170,157)</u>

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total government funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.”

The details of this (\$1,033,803) difference are as follows:

Capital outlay	\$3,929,256
Capital outlay deletion	(10,205)
Depreciation expense	<u>(4,952,854)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>(\$1,033,803)</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before March 31 of each fiscal year, all departments of the City of Watsonville are required to submit requests for appropriations to the government’s management so that a budget may be prepared. Before May 31 the proposed budget is presented to the government’s council

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, department, and division. The government department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made several supplemental budget appropriations during the fiscal year. The general fund budget was increased by a midyear adjustment of \$180,400. The City also increased special revenue funds appropriations by \$103,000 in the midyear budget.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at fiscal year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2012, expenditures exceeded appropriations in the new housing fund by \$5,009, the City's debt service fund by \$5,370, the parking garage fund by \$39,378, the inclusionary housing fund by \$37,770, business development fund by \$30, and the retirement fund by \$4,785. The housing, debt service, business development, and inclusionary housing funds had excess fund balance to cover these costs. The retirement fund will be reimbursed by future retirement tax collections. The parking garage fund will be reimbursed by future parking fees.

C. Deficit fund equity

The special revenue funds had the following deficit fund balances: redevelopment and housing grant fund \$682,666 retirement fund \$392,048, parking garage fund of \$884,308, and abandoned vehicle fund of \$8,146. The internal service fund had a deficit net asset of \$4,633,871 as of June 30, 2012. The special revenue funds will make these deficits up with future special revenue funds and the internal service fund will increase its charges to City users in the future.

IV. Detailed notes on all funds

A. Cash and investments

Cash and investments at June 30, 2012, consisted of the following:

Total Pooled Deposits and Investments	\$19,595,817
Cash and Investments with Fiscal Agent	<u>4,523,632</u>
Total Cash and Investments	<u>\$24,119,449</u>

The City of Watsonville follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

restricted cash.

Interest income earned on pooled cash and investments is allocated periodically to the various funds based on average cash balances. Interest income from cash and investments with fiscal agents and restricted cash is credited directly to the related fund.

Cash and investments (including monies held by trustees and fiscal agents) as of June 30, 2012 were as follows:

<u>Cash</u>		
Demand Deposits	\$ 3,974,197	
Outstanding Checks	(1,197,787)	
Deposits in Transit	<u>339,795</u>	
Net Demand Deposits	3,116,205	
Petty Cash	<u>9,919</u>	
Cash Subtotal		3,126,124
<u>Investments</u>		
Assessment Bonds	575,022	
Mutual Funds:		
Money Market	106,345	
Guaranteed Investment Contracts	5,139,139	
City Enterprise Loans	2,597,759	
Local Agency Investment Fund	<u>12,575,060</u>	
Investment Subtotal		<u>20,993,325</u>
Total Cash and Investments		<u>\$24,119,449</u>

The disposition of these monies by major governmental funds business type activities and private purpose trust fund was as follows:

Governmental Funds:

General	\$5,555,008
Impact Fees	2,939,208
Low Income Housing Set-Aside	433,050
General Debt Service	926,219
Other Non-major Funds	<u>5,333,550</u>
Total Governmental Funds	<u>15,187,035</u>

Business-type Activities:

Water	2,777,885
Sewer	2,234,211
Solid waste	745,253
Airport	<u>1,150</u>
Total Business-type Activities	<u>5,758,499</u>

Private Purpose Trust Fund	<u>3,173,915</u>
Total Private Purpose Trust Fund	<u>3,173,915</u>
Total Government Cash	<u>\$24,119,449</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

POOLED DEPOSITS/CREDIT RISK:

The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the government's total deposit.

The government may waive collateral requirements for deposits, which are fully insured up to \$250,000 by federal depository insurance.

At June 30, 2012, the government carrying amount of deposits and cash on hand was \$3,126,124 and bank balances was \$3,974,197. Our bank balances were covered by Federal Depository Insurance in the government's name.

Investments Authorized by the California Government Code and the City's Investment Policy

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of * Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Passbook Savings Acct Demand Deposit	N/A	None	None
Medium-Term Notes	5 years	30%	None
Debt of City of Watsonville	N/A	None	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of * Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Disclosures Relating to Interest Rate Risk

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool	\$12,575,060	\$12,575,060	\$ -	\$ -	\$ -
Debt of City of Watsonville	3,172,781	-	-	2,597,759	575,022
Money Market	106,345	106,345	-	-	-
Guaranteed Inv. Contracts	<u>5,139,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,139,139</u>
Total	<u>\$20,993,325</u>	<u>\$12,681,405</u>	<u>\$ -</u>	<u>\$2,597,759</u>	<u>\$5,714,161</u>

Disclosures Relating to Credit Risk

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
State Investment Pool	\$ 12,575,060	N/A	\$ -	\$ -	\$ 12,575,060
Debt of City of Watsonville	3,172,781	N/A	-	-	3,172,781
Money Market	106,345	N/A	-	-	106,345
Guaranteed Inv. Contracts	<u>5,139,139</u>	N/A	<u>-</u>	<u>5,139,139</u>	<u>-</u>
Total	<u>\$20,993,325</u>		<u>\$ -</u>	<u>\$5,139,139</u>	<u>\$15,854,186</u>

(1) The management of the State of California Pooled Money Investment Account (generally referred to as LAIF) has indicated to the government that as of June 30, 2012 the amortized cost value of the pool was \$60,514,457,551 and the estimated fair value of the pool was \$60,588,263,603. The reported value of the government's portion of LAIF is the same value as the fair value of LAIF shares. LAIF's (and the government's) exposure to risk (credit, market or legal) is not currently available. The State's Local Agency Investment Fund (LAIF) operates in accordance with appropriate state laws and regulations.

The government has funds held by trustees or fiscal agents pledged to the payment or security of certain bonds and certificates of participation. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agent may make.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

B. Receivables

Receivables as of the fiscal year end for major governmental funds and proprietary funds in the aggregate are as follows:

	<u>General</u>	<u>Impact Fees</u>	<u>Housing</u>	<u>Redevelopment and Housing Grants</u>	<u>General Debt Service</u>	<u>Nonmajor Funds</u>
Governmental Funds:	\$	\$	\$	\$	\$	\$
Receivables:						
Interest	37,930	-	662,207	377,641	-	61,734
Taxes	2,019,160	-	-	-	6,021	534,333
Deferred Assessments	-	-	-	-	575,000	-
Accounts	381,651	6,149	2,036	-	-	50,461
Intergovernmental	<u>1,156,521</u>	<u>167,239</u>	<u>-</u>	<u>218,519</u>	<u>-</u>	<u>789,048</u>
Total governmental activities receivables	<u>3,595,262</u>	<u>173,388</u>	<u>664,243</u>	<u>596,160</u>	<u>581,021</u>	<u>1,435,576</u>
Proprietary Funds:		<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Airport</u>	<u>Internal Service</u>
Receivables:		\$	\$	\$	\$	\$
Interest		1,141,771	-	-	-	-
Accounts		1,572,717	2,287,773	733,073	121,632	123,778
Loans			50,466			
Intergovernmental		<u>175,967</u>	<u>-</u>	<u>8,400</u>	<u>-</u>	<u>-</u>
Total business-type activities receivables		<u>2,890,455</u>	<u>2,338,239</u>	<u>741,473</u>	<u>121,632</u>	<u>123,778</u>

Note - the government does not use the allowance for uncollectible method, as the loss of revenues from receivables has been immaterial to revenues. Any loss from uncollectible accounts is directly written off at the time of the loss.

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. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

	<u>Unavailable</u>	<u>Unearned</u>
	\$	\$
Special assessments not yet due (debt service)	575,000	-
Grant funds received but not earned	-	191,393
Grants draw downs prior to meeting all eligibility requirements:		
general fund	811,235	-
special revenue funds	973,923	-
Loans/interest receivables prior to meeting all eligibility requirements:		
general fund	3,750	-
special revenue funds	<u>28,994,128</u>	-
Total deferred revenue	<u>31,358,036</u>	<u>191,393</u>

Loans Receivable

Loans receivable at June 30, 2012 are summarized as follows:

General Fund:

Barbara Schutter	\$3,750	
Private Trust Fund	<u>137,716</u>	\$141,466

Housing Fund:

Pajaro Valley Affordable Housing Corporation	250,000	
Pajaro Valley Housing Corporation	512,000	
Barry Swenson	473,778	
Pacific Terrace Assoc.	225,000	
MP Transit City Associates	1,199,342	
South County Land Corporation	584,946	
Evergreen Apartments	1,000,000	
Down Payment Assistant Loans	2,550,389	
First Time Home Buyers	110,000	
Sunny Meadows	2,125,000	
Watsonville Pacific Associates	1,200,000	
Successor Agency	629,940	
Rental Rehab Loans	<u>1,028,975</u>	11,889,370

Redevelopment and Housing Funds:

Rental Rehab Loans	3,988,063	
Monarch Disabled Housing	100,279	
South County Land Corporation	2,573,000	
First Time Home Buyers	8,267,829	
Down Payment Assistant Loans	<u>30,000</u>	14,959,171

Other Governmental Funds	<u>1,702,274</u>	<u>1,702,274</u>
Total		<u>\$28,712,281</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	14,014,625	-	-	14,014,625
Construction in progress	<u>378,976</u>	<u>1,722,486</u>	<u>-</u>	<u>2,101,462</u>
Total capital assets, not being depreciated	<u>14,393,601</u>	<u>1,722,486</u>	<u>-</u>	<u>16,116,087</u>
Capital assets, being depreciated:				
Building and improvements	132,194,205	1,463,841	-	133,658,046
Machinery and equipment	10,803,899	742,929	(35,365)	11,511,463
Infrastructure	<u>25,645,818</u>	<u>-</u>	<u>-</u>	<u>25,645,818</u>
Total capital assets being depreciated	<u>168,643,922</u>	<u>2,206,770</u>	<u>(35,365)</u>	<u>170,815,327</u>
Less accumulated depreciation for:				
Building and improvements	(34,385,300)	(2,509,222)	-	(36,894,522)
Machinery and equipment	(7,406,091)	(714,060)	25,160	(8,092,991)
Infrastructure	<u>(10,573,622)</u>	<u>(1,729,572)</u>	<u>-</u>	<u>(12,303,194)</u>
Total accumulated depreciation	<u>(52,365,013)</u>	<u>(4,952,854)</u>	<u>25,160</u>	<u>(57,292,707)</u>
Total capital assets, being depreciated, net	<u>116,278,909</u>	<u>(2,746,084)</u>	<u>(10,205)</u>	<u>113,522,620</u>
Governmental activities capital assets, net	<u>130,672,510</u>	<u>(1,023,598)</u>	<u>(10,205)</u>	<u>129,638,707</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
	\$	\$	\$	\$
Business-type activities:				
Capital assets, not being depreciated:				
Land	22,663,599	-	-	22,663,599
Construction in progress	<u>2,072,883</u>	<u>535,033</u>	<u>(139,512)</u>	<u>2,468,404</u>
Total capital assets, not being depreciated	<u>24,736,482</u>	<u>535,033</u>	<u>(139,512)</u>	<u>25,132,003</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Capital assets, being depreciated:				
Building and improvements	79,690,901	541,869	-	80,232,770
Machinery and equipment	16,809,512	1,827,082	(64,921)	18,571,673
Infrastructure	<u>53,861,205</u>	<u>325,203</u>	<u>-</u>	<u>54,186,408</u>
Total capital assets being depreciated	<u>150,361,618</u>	<u>2,694,154</u>	<u>(64,921)</u>	<u>152,990,851</u>
Less accumulated depreciation for:				
Building and improvements	(19,805,638)	(994,008)	-	(20,799,646)
Machinery and equipment	(6,043,499)	(1,733,592)	52,804	(7,715,287)
Infrastructure	<u>(43,254,799)</u>	<u>(1,047,724)</u>	<u>-</u>	<u>(44,302,523)</u>
Total accumulated depreciation	<u>(69,094,936)</u>	<u>(3,775,324)</u>	<u>52,804</u>	<u>(72,817,456)</u>
Total capital assets, being depreciated, net	<u>81,266,682</u>	<u>(1,081,170)</u>	<u>(12,117)</u>	<u>80,173,395</u>
Business-type activities capital assets, net	<u>106,003,164</u>	<u>(546,137)</u>	<u>(151,629)</u>	<u>105,305,398</u>

Depreciation expenses were charged to functions/programs of the primary government as follows:

Government activities:	
General government	\$1,739,107
Public safety	1,021,167
Highways and streets	630,142
Culture and recreation	<u>1,562,438</u>
Total depreciation expense - governmental activities	<u>\$4,952,854</u>
Business-type activities:	
Water	\$1,545,646
Sewer	1,365,505
Solid waste	654,343
Airport	<u>209,830</u>
Total depreciation expense - business-type activities	<u>\$3,775,324</u>

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2012, is as follows:

Due from/to other funds

Current interfund balances arise in the normal course of business and are expected to be repaid shortly

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

after the end of the fiscal year. Due from/to other funds balances at June 30, 2012 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental Funds:	\$	\$
General	2,449,051	-
Redevelopment & Housing	-	785,451
Nonmajor Funds	<u>785,451</u>	<u>1,516,607</u>
Total Governmental Funds	<u>3,234,502</u>	<u>2,302,058</u>
Internal Service Fund:		
Internal Service Fund	-	<u>932,444</u>
Enterprise Funds:		
Solid Waste	3,852,136	-
Airport	-	<u>3,852,136</u>
Total Enterprise Funds	<u>3,852,136</u>	<u>3,852,136</u>
Total Government	<u>7,086,638</u>	<u>7,086,638</u>

The General fund covered the current cash shortfall for non housing funds which will be paid back in the next fiscal year. The Inclusionary Housing fund covered the cash shortfall of other non major special revenue housing funds. The Solid Waste fund covered the cash shortfall for the Airport fund and will be paid back next fiscal year.

Advances receivable/payable

Long-term interfund balances arise in the normal course of business and are not expected to be repaid during the next fiscal year. Advances receivable/payable funds balances at June 30, 2012 were as follows:

	<u>Advances receivable</u>	<u>Advances payable</u>
Governmental Funds:	\$	\$
General	-	4,410,201
Impact Fees	414,252	-
Nonmajor Funds	<u>1,011,235</u>	-
Total Governmental Funds	<u>1,425,487</u>	<u>4,410,201</u>
Enterprise Funds:		
Water	933,166	-
Sewer	701,400	-
Solid Waste	<u>1,350,148</u>	-
Total Enterprise Funds	<u>2,984,714</u>	-
Total Government	<u>4,410,201</u>	<u>4,410,201</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund. The government made various interfund transfers as follows:

	Transfers In					Total
	General Fund	Impact Fee Fund	General Debt Service Fund	RDA Debt Service Fund	Non-major Funds	
<u>Transfers out:</u>	\$	\$	\$	\$	\$	\$
Impact Fee	-	-	23,140	-	-	23,140
Redevelopment-Housing	129,700	-	206,205	-	-	335,905
Redevelopment Debt Service	-	-	-	-	1,896,546	1,896,546
Non-major Funds	<u>2,095,484</u>	<u>29,850</u>	<u>1,043,800</u>	<u>132,450</u>	<u>325,775</u>	<u>3,627,359</u>
Total Transfers Out	<u>2,225,184</u>	<u>29,850</u>	<u>1,273,145</u>	<u>132,450</u>	<u>2,222,321</u>	<u>5,882,950</u>

E. Leases

Operating lease

The government has entered into a non-cancellable operating lease for 911 and public safety dispatching services with Santa Cruz Consolidated Emergency Communications Center. Total cost for the lease was \$55,268 for the fiscal year ended June 30, 2012. The future minimum lease payments as of June 30, 2012 are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u> \$
2013	50,715
2014	50,617
2015	50,158
2016	50,553
2017	50,840
2018	50,160
2019	50,301
2020	50,384
2021	50,406
2022	50,331
2023	50,155
2024	50,755
2025	50,363
2026	50,778
2027	50,193
2028	50,410
2029	50,546
2030	50,556
2031	50,435
2032	50,126
2033	50,611
2034	<u>50,964</u>
	<u>1,110,357</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

F. Long-term debt

The government's long-term debt obligations are repaid by the following funds: Revenue Bonds from the Sewer, Solid Waste, and Water Enterprise Funds; Capital Leases; Tax Allocation Bonds from the Redevelopment Debt Service Fund; notes payable from the Redevelopment Debt Service Fund and the Airport Enterprise Fund; and Certificates of Participations from the City's Debt Service Fund.

City Loans

Airport Hanger Leases - On January 26, 2011, the government issued a \$1,141,750 City Loan with an interest rate of 3.76% to call the purchase options for the 2001 refinanced lease which was for forty-seven T hangars, four small end hangars, and six executive hangars for \$373,414 at an interest rate of 4.65% and the 1999 lease which was for sixty-nine T hangars, three mid hangars, and six corporate hangars for \$768,336 at an interest rate of 5.25%. The purchase was undertaken to reduce the total future debt service payments by \$309,152.

2011 City Airport Loan:

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2013	386,402	16,645	403,047
2014	<u>232,192</u>	<u>2,919</u>	<u>235,111</u>
Total	<u>618,594</u>	<u>19,564</u>	<u>638,158</u>

Water Revenue Refunding Bonds Series 1998 - On November 15, 2010, the government issued a \$3,084,944 City Loan with an interest rate of 3.39% to refund \$3,715,000 of outstanding 1998 Series A Water Revenue Bonds with interest rates ranging from 4.74% to 6.75%. The refunding was undertaken to reduce the total future debt service payments and resulted in an economic gain of \$153,697 and a reduction of \$721,053 in future debt service payments.

2010 City Water Loan:

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2013	558,220	58,769	616,989
2014	577,440	39,549	616,989
2015	546,769	19,667	566,436
2016	<u>305,467</u>	<u>2,164</u>	<u>307,631</u>
Total	<u>1,987,896</u>	<u>120,149</u>	<u>2,108,045</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Capital lease

On June 1, 2004, the government entered into a lease agreement as lessee with the Watsonville Joint Powers Financing Authority to finance a portion of the costs of constructing, furnishing, and equipping a new library. The total amount for which the government was obligated under the lease was \$7,685,000. Construction of the new library was completed during the 2007/08 fiscal year.

Interest rates for the Certificates range from 2% to 4% with principal payments ranging from \$965,000 to \$1,005,000 through fiscal year 2013.

Minimum future installment payments for the capitalized lease consist of the following:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>March 1,</u>	\$	\$	\$
2013	<u>1,005,000</u>	<u>40,200</u>	<u>1,045,200</u>
Total	<u>1,005,000</u>	<u>40,200</u>	<u>1,045,200</u>

Revenue bonds

Revenue bonds constitute special obligations of the government solely secured by a lien on and pledge of the net revenues of the water, sewer, and solid waste systems. The revenue bonds are collateralized by the revenue of the water, sewer, and solid waste systems and the various special funds established by the bond ordinances. There is no defeased debt outstanding at June 30, 2012.

Water Revenue Bonds Series 2007 - On November 14, 2007, the government issued \$27,345,000 in Water Revenue Bonds with interest rates ranging from 4.00% to 5.00% for the construction of a recycled water facility.

Sewer Revenue Refunding Bonds Series 2009 - On September 25, 2009, the government issued \$3,491,786 in Sewer Refunding Bonds with interest rate of 4.10% to refund \$4,425,000 of outstanding 1998 Sewer Revenue Bonds with interest rates ranging from 4.625% to 5.0%.

Solid Waste Revenue Refunding Bonds Series 2009 - On September 25, 2009, the government issued \$5,444,243 in Solid Waste Refunding Bonds with interest rates ranging from 4.1% to 4.3%. to refund \$2,345,000 of outstanding 1998 Solid Waste Revenue Bonds with interest rates ranging from 4.625% to 5.05%, \$2,075,000 of outstanding 1996 Solid Waste Revenue Bonds with interest rates ranging from 5.3% to 5.5% and to purchase land for \$1,988,518.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Revenue bonds payable at June 30, 2012 consist of the following individual issues:

	<u>Amount</u> \$
\$27,345,000, 2007 water revenue bonds due in annual principal installments ranging from 800,000 to 7,415,000 through May 15, 2037, interest rate ranges from 4.00% to 5.00%	27,345,000
\$3,491,786, 2009 sewer revenue refunding bonds due in annual principal installments ranging from \$451,774 to \$553,416 through May 2016, interest rate of 4.10%	2,085,062
\$5,444,243, 2009 solid waste revenue refunding bonds due in annual principal installments ranging from \$216,188 to \$754,883 through May 2019, interest rate ranges from 4.1% to 4.3%	<u>3,519,068</u>
Total Revenue Bonds	<u><u>32,949,130</u></u>

The respective amount due from each of the revenue bonds, with the applied interest is as follows:

2007 Water Revenue Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2013		1,294,059	1,294,059
2014		1,294,059	1,294,059
2015		1,294,059	1,294,059
2016		1,294,059	1,294,059
2017	800,000	1,294,059	2,094,059
2018	840,000	1,253,259	2,093,259
2019	880,000	1,210,419	2,090,419
2020	915,000	1,175,219	2,090,219
2021	955,000	1,137,704	2,092,704
2022	995,000	1,097,116	2,092,116
2023	1,040,000	1,053,585	2,093,585
2024	1,090,000	1,001,585	2,091,585
2025	1,145,000	947,085	2,092,085
2026	1,195,000	895,560	2,090,560
2027	1,250,000	841,785	2,091,785
2028	1,305,000	785,535	2,090,535
2029*	1,370,000	724,200	2,094,200

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

2030*	1,435,000	659,125	2,094,125
2031	1,500,000	590,963	2,090,963
2032*	1,570,000	523,463	2,093,463
2033	1,645,000	448,888	2,093,888
2034*	1,720,000	370,750	2,090,750
2035*	1,805,000	284,750	2,089,750
2036*	1,900,000	194,500	2,094,500
2037	<u>1,990,000</u>	<u>99,500</u>	<u>2,089,500</u>
	<u>27,345,000</u>	<u>21,765,286</u>	<u>49,110,286</u>

*** Principal applied to a sinking fund in years 2015 and 2016**

2009 Sewer Revenue Refunding Bonds

<u>Fiscal</u> <u>Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2013	489,974	80,516	570,490
2014	510,269	60,221	570,490
2015	531,404	39,086	570,490
2016	<u>553,415</u>	<u>17,075</u>	<u>570,490</u>
Total	<u>2,085,062</u>	<u>196,898</u>	<u>2,281,960</u>

2009 Solid Waste Revenue Refunding Bonds

<u>Fiscal</u> <u>Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2013	667,272	140,333	807,605
2014	695,283	112,322	807,605
2015	724,470	83,135	807,605
2016	754,883	52,722	807,605
2017	216,188	26,819	243,007
2018	225,584	17,423	243,007
2019	<u>235,388</u>	<u>7,618</u>	<u>243,006</u>
Total	<u>3,519,068</u>	<u>440,372</u>	<u>3,959,440</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Limited obligation bonds

Limited obligation bonds consist of bonds issued for improvements in special assessment districts and are secured by liens against the assessed property. The government has agreed to establish certain reserve funds and to act as agent for property owners with respect to payment of debt service. In the event of delinquency, however, the government is not obligated to retire bonds from available funds or to bring legal action against property holders.

Due to Governmental Accounting Standards Board Statement No. 6, the City must include its assessment bonds payable within the Government-wide Statements. However, the City of Watsonville has incurred no financial liability due to Assessment District Bonds. In the case of default, the government has authority to foreclose on the delinquent account.

Limited obligation bonds payable at June 30, 2012 consist of the following:

	<u>Amount</u>
\$30,138 Second Street Court Improvement assessment district bonds due in annual principal installments ranging from \$2,000 to \$2,138 through September 2017, interest rate is 6.50%.	\$ 12,000
\$97,527 Hyde Street assessment district bonds due in annual principal installments ranging from \$527 to \$10,000 through September 2012, interest rate is 6.75%.	10,000
\$105,381 Second Street assessment district bonds due in annual principal installments ranging from \$381 to \$11,000 through September 2012, interest rate is 6.75%.	11,000
\$144,956 Beck Street assessment district bonds due in annual principal installments ranging from \$956 to \$14,000 through September 2014, interest rate is 6.00%.	41,000
\$104,456 Progress Drive assessment district bonds due in annual principal installments ranging from \$456 to \$11,000 through September 2015, interest rate is 6.25%.	39,000

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

\$55,944 Watson Drive assessment district bonds due in annual principal installments ranging from \$944 to \$4,000 through September 2017, interest rate is 6.00%.	20,000
\$738,448 Atkins Lane assessment district bonds due in annual principal installments ranging from \$944 to \$4,000 through September 2020, interest rate is 6.0%.	392,000
\$100,022 7 th , 8 th & 9th Street assessment district bonds due in annual principal installments ranging from \$5,000 to \$10,000 through September 2017, interest rate is 6.0%.	<u>50,000</u>
Total limited obligation bonds payable at June 30, 2012	<u>575,000</u>

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2013	108,000	35,395	143,395
2014	88,000	29,159	117,159
2015	89,000	23,570	112,570
2016	76,000	18,339	94,339
2017	65,000	13,840	78,840
2018	51,000	9,685	60,685
2019	49,000	6,370	55,370
2020	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>
Total	<u>575,000</u>	<u>139,543</u>	<u>714,543</u>

Debt payable

On April 13, 2012, the government entered into a commercial term loan with Santa Cruz County Bank to finance the cost of installing solar panels through the City of Watsonville. The total amount for which the government is obligated under the loan is \$3,014,285. Installation of the solar panels will be completed during the 2012/13 fiscal year.

Interest rate for the loan is 5.29% with principal payments ranging from \$135,947 to \$282,376 through fiscal year 2027.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

The annual requirements to amortize the loan outstanding as of June 30, 2012 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2013	135,947	157,681	293,628
2014	143,234	150,394	293,628
2015	150,911	142,717	293,628
2016	159,000	134,628	293,628
2017	167,522	126,106	293,628
2018	176,501	117,127	293,628
2019	185,962	107,666	293,628
2020	195,929	97,699	293,628
2021	206,431	87,197	293,628
2022	217,495	76,133	293,628
2023	229,153	64,475	293,628
2024	241,436	52,192	293,628
2025	254,377	39,251	293,628
2026	268,011	25,617	293,628
2027	<u>282,376</u>	<u>11,252</u>	<u>293,628</u>
Total	<u>3,014,285</u>	<u>1,390,135</u>	<u>4,404,420</u>

Note payable

The government entered into contract with the Secretary of U.S. Department of Housing and Urban Development. The contract is for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. #5308. The promissory note, in the amount of \$2,530,000, is for the Downtown Parking Garage Project. The note is to be repaid with future Community Development Block Grant funds over a period of twenty years at an interest rate of 5.18%.

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2012 is as follows:

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>August 1</u>	\$	\$	\$
2012	109,000	93,939	202,939
2013	110,000	88,442	198,442
2014	109,000	82,819	191,819
2015	114,000	76,935	190,935
2016	117,000	70,674	187,674

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

2017	121,000	64,087	185,087
2018	126,000	57,126	183,126
2019	133,000	49,717	182,717
2020	140,000	41,820	181,820
2021	147,000	33,439	180,439
2022	155,000	24,536	179,536
2023	163,000	15,083	178,083
2024	<u>170,000</u>	<u>5,109</u>	<u>175,109</u>
Total	<u>1,714,000</u>	<u>703,726</u>	<u>2,417,726</u>

Municipal landfill closure and post-closure liability and requirements

The government operates a landfill solely for the disposal of Watsonville resident's solid waste. The landfill is regulated by the California Integrated Waste Management Board, which requires that the government set aside certain funds for the landfill's eventual closure. As of June 30, 1998, the government's Solid Waste Division had completed the closure of the old landfill cell and recognized \$403,773 of expenditures to complete the closure. The government is now operating a new cell, which is expected to provide landfill capacity for 23 years with an estimated post-closure cost of \$778,930.

The government recognizes a portion of the closure and postclosure care costs in each operating period. The amount recognized each year to date for the new landfill is based on the landfill capacity used as of the balance sheet date. As of June 30, 2012, the new landfill cell had used 79.6% of its projected space. The estimated closure and post-closure costs were \$1,482,506 and \$1,245,305. The estimated remaining closure and postclosure costs are \$302,841 and \$254,386, which will be recognized as the remaining capacity is used (estimated to be 6.4 years). To date, the fund has \$778,930 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,179,666 and post-closure costs of \$990,919 for the open phase III cell for a total of \$2,949,515. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

POSTEMPLOYMENT LIABILITY

Plan Description

Employees who have retired from service at eligible retirement age may continue health care benefits at their own cost until age sixty-five. At June 30, 2012, twenty one retired employees participated in this program.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Funding Policy

For the retiree to be fully eligible to participate in the plan offered by the City of Watsonville, a single-employer postemployment defined benefit plan, the employee must be at least 50 years of age and have at least 5 years of service. Retirees self pay for their benefits at 105% of the active per-capita health costs, as reset by the administrator every July 1st. During fiscal year 2011-2012, expenditures of \$206,305 were recognized for post-retirement health insurance contributions on a pay as you go basis.

The City is required to contribute the net annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 5.5 percent of annual covered payroll.

Annual OPEB Cost

For fiscal year 2011-2012, the City's annual OPEB cost (expense) of \$814,200 was equal to the ARC plus NOO interest less an NOO amortization as follows:

Annual Required Contribution = ARC	\$876,200
Interest on Beginning of the Year (NOO)	104,200
Amortization	<u>(166,200)</u>
Annual OPEB Cost (expense)	814,200
Benefit Payments	<u>(193,000)</u>
Increase in OPEB	621,200
Beginning Net OPEB Obligation	<u>3,206,100</u>
Ending Net OPEB Obligation	<u><u>\$3,827,300</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2011-2012, was as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>% of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2010	\$1,438,000	9.6%	\$2,584,600
June 30, 2011	\$849,100	26.8%	\$3,206,100
June 30, 2012	\$876,200	29.1%	\$3,827,300

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Funded Status and Funding Progress

The funded status of the plan is as follows:

	6/30/11	6/30/09
	<u>Actuarial</u>	<u>Actuarial</u>
Actuarial accrued liability (AAL)	\$8,049,300	\$13,266,100
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$8,049,300</u>	<u>\$13,266,100</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$26,344,600	26,551,600
UAAL as a percentage of covered payroll	31%	50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with the past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011, actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 4.5%. Inflation rate is the discount rate of 3.25% which is the combined expected long-term rate of return on the City's assets not invested in an irrevocable trust and inflation. Projected benefit increases used are as follows: initial medical, drug and vision benefit costs increase rates but are expected to reach an ultimate 4.5% trend by the plan year 2030/31. Dental benefit costs are projected to increase at 3.0% each year.

For the amortizations of the Unfunded AAL and Net OPEB Obligations, the "level dollar" method was used over a rolling 30 years. The amortization periods are considered opened. The plan used a 3.25% per annum inflation rate. The duration of coverage for retirees and their eligible dependents is until the earlier of the retiree's age 65 or the retiree's Medicare eligibility. Retiree self-pays are defined as 105% of the active per-capita health cost, as reset by the administrator every July first.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Current costs are beginning funded out of the General Fund, Redevelopment Fund and all 4 of the Enterprise funds.

The City did not pre-fund retiree healthcare costs nor did the City establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

Changes in long-term debt

Long-term debt activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning			Transfer to	Prior	Ending	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Agency</u>	<u>Period</u>	<u>Balance</u>	<u>One Year</u>
Governmental type	\$	\$	\$	\$	\$	\$	\$
activities:							
Bonds payable:							
Tax allocation							
bonds	21,685,000	-	(880,000)	(20,805,000)	-	-	-
Special assessment							
debt with							
government							
commitment	<u>674,000</u>	<u>-</u>	<u>(99,000)</u>	<u>-</u>	<u>-</u>	<u>575,000</u>	<u>108,000</u>
Total bonds payable	22,359,000	-	(979,000)	(20,805,000)	-	575,000	108,000
Compensated absences	-	124,055	-	-	1,932,915	2,056,970	123,418
Capital lease	1,970,000	-	(965,000)	-	-	1,005,000	1,005,000
City loan	100,048	-	(18,088)	-	-	81,960	19,002
Debt payable	478,277	3,014,285	(69,579)	(408,697)	-	3,014,285	135,947
Postretirement liability	2,340,894	585,207	(138,698)	(64,461)	-	2,722,942	-
Note payable	<u>1,821,000</u>	<u>-</u>	<u>(107,000)</u>	<u>-</u>	<u>-</u>	<u>1,714,000</u>	<u>109,000</u>
Governmental activity							
Long-term Liabilities	<u>29,069,219</u>	<u>3,723,547</u>	<u>(2,277,365)</u>	<u>(21,278,158)</u>	<u>1,932,915</u>	<u>11,170,157</u>	<u>1,500,367</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	\$	\$	\$	\$	\$
Business-type activities:					
Bonds payable:					
Revenue bonds	34,060,006	-	(1,110,876)	32,949,130	1,157,246
Less deferred amounts:					
For issuance discounts	<u>(749,320)</u>	<u>-</u>	<u>37,479</u>	<u>(711,841)</u>	<u>-</u>
Total bonds payable	33,310,686	-	(1,073,397)	32,237,289	1,157,246
Compensated absences	945,032	47,641	-	992,673	59,561
City loans	3,518,294	-	(911,804)	2,606,490	944,622
Postretirement liability	865,206	228,993	(54,302)	1,039,897	-
Landfill closure/postclosure	<u>2,858,675</u>	<u>150,340</u>	<u>(59,500)</u>	<u>2,949,515</u>	<u>59,500</u>
Business-type activity					
Long-term liabilities	<u>41,497,893</u>	<u>426,974</u>	<u>(2,099,003)</u>	<u>39,825,864</u>	<u>2,183,767</u>

G. Nonspendable fund balances

In the fund financial statements, nonspendable segregate portions of fund balance that are not available. The various nonspendable fund balances established as of June 30, 2012 were as follows:

	General
	<u>Fund</u>
Inventories	<u>\$43,728</u>

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government also provides health insurance coverage to employees. There have been no significant reductions in insurance coverage for any risk of loss in the past fiscal year, and settled claims have not exceeded the commercial coverage in any of the past three fiscal years. The government has established a risk management fund to account for and finance its uninsured risks of loss.

The government's risk management programs provide coverage for up to a maximum of \$150,000 for each Workers' Compensation claim; \$500,000 for each General Liability claim; and \$110,000 for each employee Health Insurance claim. Settled claims exceeded self-insurance levels in the amount of \$98,063 in the current fiscal year and \$520,053 in the prior fiscal year. The government purchases commercial insurance for claims in excess of coverage provided by the self-insurance programs. There have been no significant changes in insurance coverage as compared to last fiscal year.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

All funds of the government participate in the self-insurance programs. The employee health insurance program is funded by contributions of a flat rate per employee to the self-insurance fund. Other self-insurance programs are funded by budgeted appropriations. Funding is estimated to provide amounts needed to pay prior and current fiscal year claims and to establish reserves for catastrophic losses.

Liabilities in the self-insurance fund at June 30, 2012 totaled \$3,545,653 as follows: Health Benefits \$951,056; General Liability \$266,700; and Workers' Compensation \$2,327,897.

The basis for estimating incurred but not reported claims is based on the statute of limitation on accepting claims as follows:

Health Benefits are estimated at 2 times the current fiscal year's average monthly cost, General Liability is estimated at 6 months of current fiscal year's average monthly claim cost, and Workers' Compensation is estimated by using the last two weeks of current fiscal year's average monthly claim cost.

	<u>2010-11</u>	<u>2011-12</u>
Claims incurred but not reported:	\$	\$
Beginning	1,056,877	1,635,158
Incurred claims	5,601,943	5,228,761
Claims paid	<u>(5,023,662)</u>	<u>(5,646,163)</u>
Ending	<u>1,635,158</u>	<u>1,217,756</u>
Claims payable:		
Beginning	3,811,293	3,324,484
Incurred claims	6,859,613	6,240,027
Claims paid	<u>(7,346,422)</u>	<u>(7,236,614)</u>
Ending	<u>3,324,484</u>	<u>2,327,897</u>

B. Public entity risk pool

In November 1994, the government became a member of the Public Agency Risk Sharing Authority of California (PARSAC), formerly known as California Municipal Insurance Authority (CMIA). PARSAC, a consortium of 36 California cities, which was established in May 1986 to pool resources, share risks, purchase excess insurance, and to share costs for professional risk management and claims administration. The Authority's governing board consists of one appointed official and an alternate from participating cities.

General liability

The City is self-insured for general liability claims up to \$500,000 (effective November 11, 1994) for each occurrence. Coverage for individual losses in excess of \$500,000, up to \$10,000,000 is provided through the Public Risk Sharing Authority of California (PARSAC). Under this program, members share in losses between the members' individual self-insured retention and \$1,000,000 under a risk sharing pool program; and from \$1,000,000 to \$10,000,000, coverage is provided by another risk pool, CARMA.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Estimates for all liabilities have been accrued in the Self-Insurance Internal Service Fund, which included an estimate for incurred but not reported claims. At June 30, 2012, total estimated claims payable for General Liability were \$266,700.

C. Commitments and Contingencies

Litigation

Various claims and lawsuits are pending against the government. In the opinion of government management, the potential claims loss will not be significant to the government's financial statements.

Grant audits

The government receives grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in a request for reimbursement by the grantor for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowance, if any, will not be significant.

Contingency

Proposition 218, which was approved by the voters in November 1996, regulates the government's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the government's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. Certain language in the initiative is unclear as to the scope and impact of the proposition. Future court rulings or state legislation may clarify these issues. At this time it is uncertain as to the effect that Proposition 218 will have on the government's ability to maintain or increase the revenue it receives from taxes, assessments and fees, or its effect on interfund payments in lieu of taxes and transfers of surplus funds from enterprise funds to the general fund. Also unclear is the extent to which a 1995 California Supreme Court ruling (the *Guardino* case) upholding the voter approval requirements of a previously enacted state initiative (Proposition 62) is applicable to prior periods. However, because the City of Watsonville is a Charter City, management believes that the *Guardino* ruling does not apply to its general law application in the cited case.

D. Post-employment health care benefits

Retiree benefits - COBRA benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government provides health care benefits to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

plus a 2% administration fee is paid in full by the insured on or before the tenth day of the month for the actual month covered. This program is offered for a duration between 18 and 36 months, after the termination date, depending on circumstances related to eligibility to Medicare, death or divorce. During the last fiscal year, three former employees participated in the program.

E. Defined benefit pension plans

CALPERS safety (police & fire) and miscellaneous employees plans

Plans descriptions

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple-employer public employee defined benefit pension plan for the miscellaneous employees and a cost-sharing employer defined benefit pension plan for the safety employees, which acts as a common investment and administrative agent for its participating member employers for both police and fire.

CALPERS provides retirement and disability benefits, annual costs of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in separate safety (police and fire) and miscellaneous (all others) employee plans. Benefit provisions and all other requirements are established by state statute and city ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The plans' provisions and benefits in effect at June 30, 2012, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefits vesting schedule	5 years service	5 years service
Benefit payment	monthly for life	monthly for life
Retirement age	50	55
Benefits per year of service, as a percent of salary	3.00%	2.00%
Required employee contribution rates	9%	7%
Required employer contribution rates (FY 2012)		
Police	32.900%	
Fire	31.994%	
Miscellaneous		11.255%

CALPERS audited annual financial statements are available at P.O. Box 942709, Sacramento, CA 94229-2709.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Funding policy

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution do not have a pension obligation since it pays these actuarially required contributions monthly.

Annual pension cost:

For 2012, the city's annual pension cost for Miscellaneous employees was \$1,777,538, Police employees was \$1,708,074 and Fire employees was \$912,992.

The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.0%. No other post-retirement assumptions are included.

In order to dampen the effect of short-term market value fluctuations on employer contribution rates, a three-year smoothed market asset valuation method is used. The average remaining period for amortization is 31 years for all plans. The effect of changes in liability due to plan amendments or changes in actuarial valuations will be amortized separately using a level percentage of pay over a closed 20-year period.

THREE-YEAR TREND INFORMATION FOR PERS:

Miscellaneous Employee Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
	\$	%	\$
6/30/10	1,503,591	100	0
6/30/11	1,467,925	100	0
6/30/12	1,777,538	100	0
Police Safety Plan			
6/30/10	1,779,754	100	0
6/30/11	1,820,417	100	0
6/30/12	1,708,074	100	0
Fire Safety Plan			
6/30/10	970,173	100	0
6/30/11	949,516	100	0
6/30/12	912,992	100	0

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Required Supplementary Information:

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS).

The Miscellaneous Employee Plan is an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers.

The plans' actuarial values (which differ from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30, 2010.

Public Miscellaneous Employer Retirement System
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability/ (AAL) Ent Age (A) \$	Actuarial Value of Assets (B) \$	Unfunded AAL (UAAL) (A-B) \$	Funded Ratio (B/A)	Covered Payroll (C) \$	UAAL As a % of Payroll ((A-B)/C)
Miscellaneous						
6/30/08	77,335	70,124	7,210	90.7%	18,224	39.6%
6/30/09	85,966	74,446	11,520	86.6%	17,674	65.2%
6/30/10	90,116	78,514	11,603	87.1%	18,161	63.9%

The Safety Employee Plans (police & fire) are cost-sharing employer defined benefit plans which acts as a common investment and administrative agent for its participating member employers. Effective fiscal year 2005-06, the city participates in the CALPERS Safety Risk Pools, as required for cities with less than 100 active members in the plans.

F. Prior period adjustments

In the preparation of the financial statements, several entries were necessary to adjust fund equity to begin the fiscal year ending June 30, 2012 for government wide governmental activities, governmental activities and business-type activities. The adjustments were as follows:

	<u>Beginning Balance</u> \$	<u>Additions</u> \$	<u>Decreases</u> \$	<u>Beginning Balance Restated</u> \$
Government Wide:				
Governmental	140,987,616	1,059,153	(572,926)	141,473,843
Business-type	109,360,181	1,448,679	(1,822,097)	108,986,763

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Governmental Funds:

General Fund	1,598,588	1,900,603	-	3,499,567
Redevelopment				
Debt Service	2,149,052	673	(29,713)	2,120,012
Other Governmental				
Funds	6,548,610	813,188	(543,213)	6,818,585

Business-type Activities:

Water	53,129,325	1,444,946	(2,050)	54,572,221
Sewer	47,635,589	3,733	(1,166,721)	46,472,601
Solid Waste	2,882,591	-	(47,583)	2,835,006
Airport	5,712,676	-	(605,743)	5,106,933

Following are detailed explanations of prior period adjustments:

Government Wide –

Governmental Activities:

1. Adjustment was made to correct prior year's accounts receivables \$6,980.
2. Adjustment was made to correct cash with fiscal agent (\$29,713).
3. Adjustments were made to correct prior accounts payable accrual \$673.
4. Adjustment was made to correct prior year's grant receivable \$600,789.
5. Adjustment was made to correct prior year's loans payable \$172,470.
6. Adjustment was made to correct prior year's loans receivable (\$543,213).
7. Adjustment was made to correct prior year's notes payable \$278,241.

Business-type Activities:

1. Adjustment was made to increase interest accrual (\$2,050).
2. Adjustment was made to correct prior year's payables \$283,907.
3. Adjustment was made to correct over accrual of revenue \$1,161,039.
4. Adjustment was made to correct under accrual of revenue (\$1,161,039).
5. Adjustments were made to correct prior year expenditures (\$28,102).
6. Adjustments were made to correct under accrual of revenue (\$20,701).
7. Adjustment was made to correct prior year's grant receivable (\$600,789).
8. Adjustment was made to correct prior year's receivables (\$5,683).

Governmental Funds:

General Fund:

- 1 Adjustment was made to correct prior year's accounts receivables \$6,980.
- 2 Adjustment was made to correct prior year's compensated absences \$1,893,623.

Redevelopment Debt Service Fund:

1. Adjustment was made to correct cash with fiscal agent (\$29,713).
2. Adjustments were made to correct prior accounts payable accrual \$673.

Other Governmental Funds:

1. Adjustment was made to correct prior year's grant receivable \$600,789.
2. Adjustment was made to correct prior year's compensated absences \$39,929.
3. Adjustment was made to correct prior year's loans payable \$172,470.
4. Adjustment was made to correct prior year's loans receivable (\$543,213).

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Business-type Activities:

Water Fund:

1. Adjustment was made to increase interest accrual (\$2,050).
2. Adjustment was made to correct prior year's payables \$283,907.
3. Adjustment was made to correct over accrual of revenue \$1,161,039.

Sewer Fund:

1. Adjustment was made to correct prior year expenditures \$3,734.
2. Adjustment was made to correct under accrual of revenue (\$1,161,039).
3. Adjustment was made to correct prior year's receivables (\$5,683).

Solid Waste Fund:

1. Adjustment was made to correct prior year expenditures (\$26,882).
2. Adjustments were made to correct under accrual of revenue (\$20,701).

Airport Fund:

1. Adjustment was made to correct prior year's grant receivable (\$600,789).
2. Adjustment was made to correct prior year expenditures (\$4,954).

G. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 64

For the fiscal year ending June 30, 2012, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 64, ("*Derivative Instruments: Application of Hedge Accounting Termination Provisions.*") This statement is effective for periods beginning after June 15, 2011. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counter party's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2012.

H. Subsequent Events

Management of the City of Watsonville has evaluated subsequent events through January 28, 2013, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

I. Successor Agency Trust for Assets of former Redevelopment Agency of the City of Watsonville.

On December 29, 2011 the California Supreme Court upheld Assembly Bill 1X 26 ("Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Watsonville that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local governments. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution number 4-12.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the state Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the government funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (loss).

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary (gain)/loss reported in governmental funds – (decrease)/increase to net assets of the Successor Agency Trust Fund	\$228,000
Long-term debt reported in the governmental-wide financial statements – decrease to net assets of the Successor Agency	(20,999,918)
Bond issuance costs reported in the governmental-wide financial statements – increase to net assets of the Successor Agency	383,513
Interest payable costs reported in the governmental-wide financial statements – decrease to net assets of the Successor Agency	<u>(342,923)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the governmental-wide financial statement of the City)	<u>\$20,731,328</u>

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2012:

96

	Beginning Balance	Transfer from RDA	Additions	Reductions	Ending Balance	Due Within One Year
	\$	\$	\$	\$	\$	\$
Tax allocation bonds	-	20,805,000	-	-	20,805,000	910,000
Less deferred amounts						
Issuance discount	<u>-</u>	<u>(383,513)</u>	<u>-</u>	<u>-</u>	<u>(383,513)</u>	<u>-</u>
Net tax allocation bonds	-	20,421,487	-	-	20,421,487	910,000
Debt payable	-	408,698	-	-	408,698	70,951
Postretirement liability	-	64,461	-	-	64,461	-
*Notes payable	<u>-</u>	<u>1,823,475</u>	<u>-</u>	<u>-</u>	<u>1,823,475</u>	<u>-</u>
Total	<u>-</u>	<u>22,718,121</u>	<u>-</u>	<u>-</u>	<u>22,718,121</u>	<u>980,951</u>

*Note: Notes payable to the City of Watsonville were shown as advances between governmental funds in prior financial statements.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Tax allocation bonds

In June of 2004 the Redevelopment Agency of the City of Watsonville (blended component unit) issued tax allocation bonds in three series as follows:

1. Series A - \$19,000,000
2. Series B-1 - \$2,310,000
3. Series B-2 - \$4,635,000

2004 Tax Allocation Bonds, Series A

A portion of the proceeds from the issue is to be used to finance a portion of the costs of design and construction of the Civic Center Plaza and Parking Structure project in downtown Watsonville. Interest rates for the Series A bonds range from 4% to 5% with principal payments ranging from \$400,000 to \$1,050,000 through fiscal year 2034.

The 2004 Tax Allocation Bonds, Series A have the following redemption schedule:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2012	620,000	717,298	1,337,298
2013	645,000	691,998	1,336,998
2014	675,000	665,598	1,340,598
2015	700,000	637,398	1,337,398
2016	730,000	606,820	1,336,820
2017	760,000	573,843	1,333,843
2018	795,000	538,458	1,333,458
2019	830,000	500,668	1,330,668
2020	870,000	460,500	1,330,500
2021	910,000	418,225	1,328,225
2022	955,000	373,931	1,328,931
2023	1,000,000	326,875	1,326,875
2024	1,050,000	276,250	1,326,250
2025	400,000	240,000	640,000
2026	415,000	219,625	634,625
2027	440,000	198,250	638,250
2028	460,000	175,750	635,750
2029	485,000	152,125	637,125
2030	505,000	127,375	632,375
2031 *	535,000	101,375	636,375
2032 *	560,000	74,000	634,000
2033 *	585,000	45,375	630,375
2034 *	<u>615,000</u>	<u>15,375</u>	<u>630,375</u>
Total	<u>15,540,000</u>	<u>8,137,112</u>	<u>23,677,112</u>

* Principal applied to a sinking fund in years 2031 to 2034.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

2004 Tax Allocation Bonds, Series B-1

A portion of the proceeds from this issue is to be used to finance certain low and moderate income housing capital improvements within the Redevelopment Project Area. Interest rates for the Series B-1 bonds range from 4% to 5% with principal payments ranging from \$95,000 to \$170,000 through fiscal year 2025.

The 2004 Tax Allocation Bonds, Series B-1 have the following redemption schedule:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2012	100,000	76,871	176,871
2013	105,000	72,771	177,771
2014	110,000	68,416	178,416
2015	115,000	63,718	178,718
2016	120,000	58,634	178,634
2017	125,000	53,181	178,181
2018	130,000	47,444	177,444
2019	135,000	41,397	176,397
2020	140,000	34,950	174,950
2021	150,000	28,063	178,063
2022	155,000	20,625	175,625
2023	165,000	12,625	177,625
2024	<u>170,000</u>	<u>4,250</u>	<u>174,250</u>
Total	<u>1,720,000</u>	<u>582,945</u>	<u>2,302,945</u>

2004 Tax Allocation Bonds, Series B-2

A portion of the proceeds from this issue is to be used to finance certain low and moderate income housing capital improvements within the Redevelopment Project Area. Interest rates for the Series B-1 bonds range from 3% to 6.25% with principal payments ranging from \$175,000 to \$380,000 through fiscal year 2025.

The 2004 Tax Allocation Bonds, Series B-2 have the following redemption schedule:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2012	190,000	207,390	397,390
2013	200,000	197,200	397,200
2014	210,000	186,438	396,438
2015*	225,000	174,175	399,175

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

2016*	235,000	160,375	395,375
2017*	250,000	145,825	395,825
2018*	265,000	130,375	395,375
2019*	280,000	114,025	394,025
2020**	300,000	96,250	396,250
2021**	315,000	77,031	392,031
2022**	335,000	56,719	391,719
2023**	360,000	35,000	395,000
2024**	<u>380,000</u>	<u>11,875</u>	<u>391,875</u>
Total	<u>3,545,000</u>	<u>1,592,678</u>	<u>5,137,678</u>

* Principal applied to a sinking fund in years 2015 to 2019.

** Principal applied to a sinking fund in years 2020 to 2024.

Debt payable

The former Redevelopment Agency of the City of Watsonville discovered a tax increment allocation error made by the County of Santa Cruz, in fiscal year 2003/04, which resulted in the Agency receiving \$1,438,864 in excess revenues in prior fiscal years. During the current year, the Successor Agency repaid \$23,836 of the debt and the note has a balance of \$47,677 at June 30, 2012. The loan has a 0% imputed interest rate.

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2013	23,836
2014	<u>23,841</u>
Total	<u>47,677</u>

The County of Santa Cruz discovered overpayment of tax increment allocations error in fiscal year 2008/09, which resulted in the Agency receiving \$494,292 in excess revenues in prior fiscal years. The Agency has agreed to repay the County of Santa Cruz over a ten year period. The loan has a 0% imputed interest rate.

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2013	47,115
2014	48,529
2015	49,985
2016	51,484
2017	53,029
2018	54,619
2019	<u>56,260</u>
Total	<u>361,021</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

Postretirement liability

As of the transfer of the Agency assets to the Successor Agency, the Postretirement liability was \$64,461. This amount will be reduced by an allocation of future costs incurred by the City from former staff members of the Agency.

Notes Payable

On May 25, 2004, the City's Water Utility Fund loaned the Redevelopment Agency \$1,243,601 to fund the Agency's payment to the County of Santa Cruz for excess tax increment errors which resulted in excess tax increment payments to the Agency. The loan has an interest rate of 2.5% with repayment to be over 20 years.

As of the transfer of the Agency assets to the Successor Agency, the note balance was \$720,253. The State of California has deemed this note as not a enforceable obligation, and the city cannot be paid back until a finding of completion is received from the State's Department of Finance and the Successor Agency's oversight board makes a finding that the note was for legitimate redevelopment purpose.

On June 22, 2010, the City and Agency agreed to a note payable from the Agency to the City for impact fees imposed on the Civic Plaza Project in the amount of \$708,495. As of the transfer of the Agency assets to the Successor Agency, the note balance was \$473,282. The State of California has deemed this note as not a enforceable obligation, and the city cannot be paid back until a finding of completion is received from the State's Department of Finance and the Successor Agency's oversight board makes a finding that the note was for legitimate redevelopment purpose.

On March 8, 2011, the Agency authorized a loan from the Agency's 20% Housing Set Aside Fund to make the State mandated payment to the County Supplemental Education Revenue Augmentation Fund for the fiscal years 2010-2011 in the amount of \$629,940. The State of California has deemed this note as not a enforceable obligation, and the City cannot be paid back until a finding of completion is received from the State's Department of Finance and the Successor Agency's oversight board makes a finding that the note was for legitimate redevelopment purpose.

Notes Payable recap:

Water Utility fund	\$720,253
Impact fees fund	473,282
Housing fund	<u>629,940</u>
Total Notes Payable	<u>\$1,823,475</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 (Continued)

J. Special Item

On February 1, 2012, all the assets from the Redevelopment Agency Low and Moderate Income Housing Fund were transferred to the City Housing Fund. The transfer in amount of \$2,020,781 was reported as special item in the accompanying statement of revenues, expenditures and changes in fund balance.

City of Watsonville, California Nonmajor Governmental Funds Special Revenue Funds

Gas Tax

The City of Watsonville receives various revenues from taxes imposed on the sale of gasoline. These funds are to be used for maintaining and improving Watsonville's roads and transportation system.

Narcotics Assets Seizure

Federal and State law authorize the seizure of assets used in the sale of illegal drugs. The proceeds from these seizures are to be used to further Police enforcement. These monies are accounted for in this fund.

Business Development

This fund collects a business license surcharge and downtown property tax assessment which is then remitted to the Chamber of Commerce and Economic Development for their respective purposes.

Rental Rehabilitation

These grants provide low cost loans for the rehabilitation of low cost rental housing.

Library

The Library Fund receives sales tax, grants, donations and state subventions for the advancement of the Library in Watsonville. This fund receives such revenues and records their expenditures.

Low Income Housing Set Aside

The Low Income Housing Set Aside Fund is used to hold twenty percent of the Redevelopment Agency's tax increment for low and moderate income housing projects.

Parks Development

This fund's revenues are grants, park development impact fees and 1972 Landscape and Lighting Assessment fees. These funds are used to acquire, improve and maintain the government's parks.

(Continued)

City of Watsonville, California

Nonmajor Governmental Funds

Special Revenue Funds

Retirement Tax

The City of Watsonville participates in the California Public Employees Retirement System. The government's contribution for General Fund employees is funded by a voter approved property tax override. The tax is collected in this fund and then used to pay for appropriate retirement expenses.

Redevelopment

This fund accounts for the expenditures of funds in the Redevelopment District. This fund is primarily supported by property tax increment, generated by increased economic activity in the downtown redevelopment district.

Parking Garage

This fund is used to record operating costs used to maintain the government's parking garage downtown.

Business Booster Loan Program

This fund was created to hold funds allocated by Council for loans to be used to support businesses within the City limits.

Abandoned Vehicle

The government has assigned a Watsonville Police Department Service Specialist to aggressively enforce all State laws and City of Watsonville Ordinances pertaining to the abatement of all abandoned, wrecked, dismantled, inoperative vehicles or parts from any and all private or public properties. This fund collects State and County funds used to pay for these services

Inclusionary Housing

The government levies an impact fee on all market rate housing development, which either requires a specified number of below market housing units be created or the payment of a fee. This fund collects those fees and uses them to create low-income housing.

(Concluded)

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	Special Revenue Funds						
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	RENTAL REHABILI- TATION	LIBRARY	LOW INCOME HOUSING SETASIDE	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$
ASSETS:							
Cash and investments	2,020,822	174,753	183,268	497,179	725,094	-	811,413
Receivables:							
Interest	-	-	-	21,370	-	-	-
Taxes	148,531	-	-	-	276,121	-	7,947
Accounts	6,602	-	1,121	-	-	-	-
Intergovernmental	789,048	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Advances receivable	-	-	-	-	420,989	-	195,328
Loans receivable	-	-	-	66,219	40,293	-	-
Total Assets	2,965,003	174,753	184,389	584,768	1,462,497	-	1,014,688
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts payable	765,162	-	-	-	21,384	-	861
Accrued personnel costs	3,473	-	-	-	-	-	1,951
Retentions payable	92,431	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	621,970	-	-	87,589	40,293	-	-
Unearned revenue	-	-	1,348	-	-	-	-
Deposits	-	116,406	-	-	-	-	-
Total Liabilities	1,483,036	116,406	1,348	87,589	61,677	-	2,812
Fund Balances:							
Restricted for:							
Gas tax	1,481,967	-	-	-	-	-	-
Assets seizure	-	58,347	-	-	-	-	-
Business development	-	-	183,041	-	-	-	-
Rental rehabilitation	-	-	-	497,179	-	-	-
Library	-	-	-	-	1,400,820	-	-
Parks development	-	-	-	-	-	-	1,011,876
Business booster loan program	-	-	-	-	-	-	-
Inclusionary housing	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total Fund Balances	1,481,967	58,347	183,041	497,179	1,400,820	-	1,011,876
Total Liabilities and Fund Balances	2,965,003	174,753	184,389	584,768	1,462,497	-	1,014,688

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	Special Revenue Funds						
	RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	INCLUSIONARY HOUSING	TOTAL
	\$	\$	\$	\$	\$	\$	\$
ASSETS:							
Cash and investments	-	-	-	281,022	-	639,999	5,333,550
Receivables:							
Interest	-	-	-	-	-	40,364	61,734
Taxes	88,169	-	-	-	13,565	-	534,333
Accounts	-	-	26,574	-	7,164	9,000	50,461
Intergovernmental	-	-	-	-	-	-	789,048
Due from other funds	-	-	-	-	-	785,451	785,451
Advances receivable	-	-	-	-	-	394,918	1,011,235
Loans receivable	-	-	-	-	-	1,595,762	1,702,274
Total Assets	88,169	-	26,574	281,022	20,729	3,465,494	10,268,086
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts payable	-	-	9,444	-	-	2,897	799,748
Accrued personnel costs	-	-	-	-	-	6,460	11,884
Retentions payable	-	-	-	-	-	-	92,431
Due to other funds	480,217	-	901,438	-	28,875	-	1,410,530
Deferred revenue	-	-	-	-	-	1,681,086	2,430,938
Unearned revenue	-	-	-	-	-	-	1,348
Deposits	-	-	-	-	-	-	116,406
Total Liabilities	480,217	-	910,882	-	28,875	1,690,443	4,863,285
Fund Balances:							
Restricted for:							
Gas tax	-	-	-	-	-	-	1,481,967
Assets seizure	-	-	-	-	-	-	58,347
Business development	-	-	-	-	-	-	183,041
Rental rehabilitation	-	-	-	-	-	-	497,179
Library	-	-	-	-	-	-	1,400,820
Parks development	-	-	-	-	-	-	1,011,876
Business booster loan program	-	-	-	281,022	-	-	281,022
Inclusionary housing	-	-	-	-	-	1,775,051	1,775,051
Unassigned	(392,048)	-	(884,308)	-	(8,146)	-	(1,284,502)
Total Fund Balances	(392,048)	-	(884,308)	281,022	(8,146)	1,775,051	5,404,801
Total Liabilities and Fund Balances	88,169	-	26,574	281,022	20,729	3,465,494	10,268,086

Concluded

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue Funds						
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	RENTAL REHABILITATION	LIBRARY	LOW INCOME HOUSING SETASIDE	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$
REVENUES:							
Taxes	1,460,851	-	-	-	2,175,499	1,080,498	-
Licenses, permits and fees	-	-	64,577	2,789	54,574	-	209,396
Intergovernmental	962,344	-	-	-	532,353	-	-
Interest	20,295	-	-	-	22,779	13,831	10,597
Miscellaneous	-	398	-	-	-	73,669	-
Total revenues	2,443,490	398	64,577	2,789	2,785,205	1,167,998	219,993
EXPENDITURES:							
Current:							
General government	-	-	62,045	2,000	-	-	168,490
Housing	-	-	-	-	-	1,321,329	-
Streets	3,076,022	29,953	-	-	-	-	-
Culture and recreation	-	-	-	-	2,509,740	-	-
Total expenditures	3,076,022	29,953	62,045	2,000	2,509,740	1,321,329	168,490
Excess (deficiency) of revenues over (under) expenditures	(632,532)	(29,555)	2,532	789	275,465	(153,331)	51,503
OTHER FINANCING SOURCES (USES):							
Transfers in	-	-	-	-	-	-	22,960
Transfers out	(340,000)	-	-	-	(1,043,800)	(435,265)	-
Total other financing sources (uses)	(340,000)	-	-	-	(1,043,800)	(435,265)	22,960
Net change in fund balances before special & extraordinary items	(972,532)	(29,555)	2,532	789	(768,335)	(588,596)	74,463
SPECIAL ITEM							
Gain/Loss on transfer of Redevelopment Agency Housing Assets	-	-	-	-	-	(2,020,781)	-
EXTRAORDINARY ITEM							
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	-	-	-	-	(43,818)	-
Net change in fund balances	(972,532)	(29,555)	2,532	789	(768,335)	(2,653,195)	74,463
Fund balances, July 1	1,853,710	87,902	180,509	496,390	2,169,155	3,196,408	937,413
Prior period adjustments	600,789	-	-	-	-	(543,213)	-
Fund balances, July 1, as restated	2,454,499	87,902	180,509	496,390	2,169,155	2,653,195	937,413
Fund balances, June 30	1,481,967	58,347	183,041	497,179	1,400,820	-	1,011,876

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue Funds						TOTALS
	RETIREMENT	REDEVELOPMENT	PARKING	BUSINESS	ABANDONED	INCLUSIONARY	
	TAX		GARAGE	BOOSTER	VEHICLE	HOUSING	
	\$	\$	\$	\$	\$	\$	
REVENUES:							
Taxes	1,970,308	-	-	-	-	-	6,687,156
Licenses, permits and fees	-	-	140,011	-	43,979	43,678	559,004
Intergovernmental	-	-	-	-	-	-	1,494,697
Interest	-	-	-	-	-	1,758	69,260
Miscellaneous	-	15,675	-	-	-	284,178	373,920
Total revenues	<u>1,970,308</u>	<u>15,675</u>	<u>140,011</u>	<u>-</u>	<u>43,979</u>	<u>329,614</u>	<u>9,184,037</u>
EXPENDITURES:							
Current:							
General government	4,786	-	161,621	-	-	-	398,942
Housing	-	523,190	-	-	-	218,866	2,063,385
Streets	-	-	-	-	-	-	3,105,975
Culture and recreation	-	-	-	-	-	-	2,509,740
Total expenditures	<u>4,786</u>	<u>523,190</u>	<u>161,621</u>	<u>-</u>	<u>-</u>	<u>218,866</u>	<u>8,078,042</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,965,522</u>	<u>(507,515)</u>	<u>(21,610)</u>	<u>-</u>	<u>43,979</u>	<u>110,748</u>	<u>1,105,995</u>
Transfers in	-	2,199,361	-	-	-	-	2,222,321
Transfers out	<u>(1,659,557)</u>	<u>(78,270)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,467)</u>	<u>(3,627,359)</u>
Total other financing sources (uses)	<u>(1,659,557)</u>	<u>2,121,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,467)</u>	<u>(1,405,038)</u>
Net change in fund balances before special & extraordinary items	<u>305,965</u>	<u>1,613,576</u>	<u>(21,610)</u>	<u>-</u>	<u>43,979</u>	<u>40,281</u>	<u>(299,043)</u>
SPECIAL ITEM							
Gain/Loss on transfer of Redevelopment Agency Housing Assets	-	-	-	-	-	-	(2,020,781)
EXTRAORDINARY ITEM							
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	949,858	-	-	-	-	906,040
Net change in fund balances	<u>305,965</u>	<u>2,563,434</u>	<u>(21,610)</u>	<u>-</u>	<u>43,979</u>	<u>40,281</u>	<u>(1,413,784)</u>
Fund balances, July 1	(698,013)	(2,735,904)	(862,698)	281,022	(52,125)	1,694,841	6,548,610
Prior period adjustments	-	172,470	-	-	-	39,929	269,975
Fund balances, July 1, as restated	<u>(698,013)</u>	<u>(2,563,434)</u>	<u>(862,698)</u>	<u>281,022</u>	<u>(52,125)</u>	<u>1,734,770</u>	<u>6,818,585</u>
Fund balances, June 30	<u>(392,048)</u>	<u>-</u>	<u>(884,308)</u>	<u>281,022</u>	<u>(8,146)</u>	<u>1,775,051</u>	<u>5,404,801</u>

Concluded

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GAS TAX				NARCOTICS ASSETS SEIZURE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	967,500	967,500	1,460,851	493,351	-	-	-	-
Intergovernmental	1,311,400	1,311,400	962,344	(349,056)	-	-	-	-
Interest	20,000	20,000	20,295	295	2,500	2,500	-	(2,500)
Miscellaneous	-	-	-	-	10,000	10,000	398	(9,602)
Total revenues	<u>2,298,900</u>	<u>2,298,900</u>	<u>2,443,490</u>	<u>144,590</u>	<u>12,500</u>	<u>12,500</u>	<u>398</u>	<u>(12,102)</u>
EXPENDITURES:								
Public Safety	-	-	-	-	155,000	155,000	29,953	125,047
Streets	6,533,562	6,533,562	3,076,022	3,457,540	-	-	-	-
Total expenditures	<u>6,533,562</u>	<u>6,533,562</u>	<u>3,076,022</u>	<u>3,457,540</u>	<u>155,000</u>	<u>155,000</u>	<u>29,953</u>	<u>125,047</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,234,662)</u>	<u>(4,234,662)</u>	<u>(632,532)</u>	<u>3,602,130</u>	<u>(142,500)</u>	<u>(142,500)</u>	<u>(29,555)</u>	<u>112,945</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	(340,000)	(340,000)	(340,000)	-	-	-	-	-
Total other financing sources (uses)	<u>(340,000)</u>	<u>(340,000)</u>	<u>(340,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(4,574,662)</u>	<u>(4,574,662)</u>	<u>(972,532)</u>	<u>3,602,130</u>	<u>(142,500)</u>	<u>(142,500)</u>	<u>(29,555)</u>	<u>112,945</u>
Fund balances, July 1	1,853,710	1,853,710	1,853,710	-	87,902	87,902	87,902	-
Prior period adjustments	-	-	600,789	600,789	-	-	-	-
Fund balances, July 1, as restated	<u>1,853,710</u>	<u>1,853,710</u>	<u>2,454,499</u>	<u>600,789</u>	<u>87,902</u>	<u>87,902</u>	<u>87,902</u>	<u>-</u>
Fund balances, June 30	<u>(2,720,952)</u>	<u>(2,720,952)</u>	<u>1,481,967</u>	<u>4,202,919</u>	<u>(54,598)</u>	<u>(54,598)</u>	<u>58,347</u>	<u>112,945</u>

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUSINESS DEVELOPMENT				RENTAL REHABILITATION			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Licenses, permits and fees	60,000	60,000	64,577	4,577	13,000	13,000	2,789	(10,211)
Interest	-	-	-	-	12,000	12,000	-	(12,000)
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>64,577</u>	<u>4,577</u>	<u>25,000</u>	<u>25,000</u>	<u>2,789</u>	<u>(22,211)</u>
EXPENDITURES:								
Current:								
General government	62,015	62,015	62,045	(30)	25,000	25,000	2,000	23,000
Total expenditures	<u>62,015</u>	<u>62,015</u>	<u>62,045</u>	<u>(30)</u>	<u>25,000</u>	<u>25,000</u>	<u>2,000</u>	<u>23,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,015)</u>	<u>(2,015)</u>	<u>2,532</u>	<u>4,547</u>	<u>-</u>	<u>-</u>	<u>789</u>	<u>789</u>
Net change in fund balances	(2,015)	(2,015)	2,532	4,547	-	-	789	789
Fund balances, July 1	<u>180,509</u>	<u>180,509</u>	<u>180,509</u>	<u>-</u>	<u>496,390</u>	<u>496,390</u>	<u>496,390</u>	<u>-</u>
Fund balances, June 30	<u><u>178,494</u></u>	<u><u>178,494</u></u>	<u><u>183,041</u></u>	<u><u>4,547</u></u>	<u><u>496,390</u></u>	<u><u>496,390</u></u>	<u><u>497,179</u></u>	<u><u>789</u></u>

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	LIBRARY				LOW INCOME HOUSING SET ASIDE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Taxes	2,438,093	2,438,093	2,175,499	(262,594)	1,722,318	1,722,318	1,080,498	(641,820)
Licenses, permits and fees	77,800	77,800	54,574	(23,226)	-	-	-	-
Intergovernmental	115,000	115,000	532,353	417,353	-	-	-	-
Interest	45,000	45,000	22,779	(22,221)	20,000	20,000	13,831	(6,169)
Miscellaneous	100,000	100,000	-	(100,000)	50,000	50,000	73,669	23,669
Total revenues	<u>2,775,893</u>	<u>2,775,893</u>	<u>2,785,205</u>	<u>9,312</u>	<u>1,792,318</u>	<u>1,792,318</u>	<u>1,167,998</u>	<u>(624,320)</u>
EXPENDITURES:								
Current:								
Housing	-	-	-	-	2,966,836	2,966,836	1,321,329	1,645,507
Culture and recreation	2,910,357	2,993,357	2,509,740	483,617	-	-	-	-
Total expenditures	<u>2,910,357</u>	<u>2,993,357</u>	<u>2,509,740</u>	<u>483,617</u>	<u>2,966,836</u>	<u>2,966,836</u>	<u>1,321,329</u>	<u>1,645,507</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(134,464)</u>	<u>(217,464)</u>	<u>275,465</u>	<u>492,929</u>	<u>(1,174,518)</u>	<u>(1,174,518)</u>	<u>(153,331)</u>	<u>1,021,187</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	<u>(1,043,800)</u>	<u>(1,043,800)</u>	<u>(1,043,800)</u>	<u>-</u>	<u>(607,926)</u>	<u>(607,926)</u>	<u>(435,265)</u>	<u>172,661</u>
Total other financing sources (uses)	<u>(1,043,800)</u>	<u>(1,043,800)</u>	<u>(1,043,800)</u>	<u>-</u>	<u>(607,926)</u>	<u>(607,926)</u>	<u>(435,265)</u>	<u>172,661</u>
Net change in fund balances before special & extraordinary items	<u>(1,178,264)</u>	<u>(1,261,264)</u>	<u>(768,335)</u>	<u>492,929</u>	<u>(1,782,444)</u>	<u>(1,782,444)</u>	<u>(588,596)</u>	<u>1,193,848</u>
SPECIAL ITEM								
Gain/Loss on transfer of Redevelopment Agency Housing Assets	-	-	-	-	-	-	(2,020,781)	(2,020,781)
EXTRAORDINARY ITEM								
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	-	-	-	-	-	(43,818)	(43,818)
Net change in fund balances	<u>(1,178,264)</u>	<u>(1,261,264)</u>	<u>(768,335)</u>	<u>492,929</u>	<u>(1,782,444)</u>	<u>(1,782,444)</u>	<u>(2,653,195)</u>	<u>(870,751)</u>
Fund balances, July 1	2,169,155	2,169,155	2,169,155	-	3,196,408	3,196,408	3,196,408	-
Prior period adjustments	-	-	-	-	-	-	(543,213)	(543,213)
Fund balances, July 1, as restated	<u>2,169,155</u>	<u>2,169,155</u>	<u>2,169,155</u>	<u>492,929</u>	<u>3,196,408</u>	<u>3,196,408</u>	<u>2,653,195</u>	<u>(543,213)</u>
Fund balances, June 30	<u>990,891</u>	<u>907,891</u>	<u>1,400,820</u>	<u>492,929</u>	<u>1,413,964</u>	<u>1,413,964</u>	<u>-</u>	<u>(1,413,964)</u>

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	PARKS DEVELOPMENT				RETIREMENT TAX			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	-	-	-	-	2,042,000	2,042,000	1,970,308	(71,692)
Licenses, permits, and fees	288,934	288,934	209,396	(79,538)	-	-	-	-
Interest	32,500	32,500	10,597	(21,903)	-	-	-	-
Total revenues	321,434	321,434	219,993	(101,441)	2,042,000	2,042,000	1,970,308	(71,692)
EXPENDITURES:								
Current:								
General government	633,159	634,159	168,490	465,669	-	-	4,786	(4,786)
Total expenditures	633,159	634,159	168,490	465,669	-	-	4,786	(4,786)
Excess (deficiency) of revenues over (under) expenditures	(311,725)	(312,725)	51,503	364,228	2,042,000	2,042,000	1,965,522	(76,478)
OTHER FINANCING SOURCES (USES):								
Transfers in	45,921	45,921	22,960	(22,961)	-	-	-	-
Transfers out	-	-	-	-	(1,659,557)	(1,659,557)	(1,659,557)	-
Total other financing sources (uses)	45,921	45,921	22,960	(22,961)	(1,659,557)	(1,659,557)	(1,659,557)	-
Net change in fund balances	(265,804)	(266,804)	74,463	341,267	382,443	382,443	305,965	(76,478)
Fund balances, July 1	937,413	937,413	937,413	-	(698,013)	(698,013)	(698,013)	-
Fund balances, June 30	671,609	670,609	1,011,876	341,267	(315,570)	(315,570)	(392,048)	(76,478)

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	REDEVELOPMENT				PARKING GARAGE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Licenses, permits, and fees	-	-	-	-	145,000	145,000	140,011	(4,989)
Miscellaneous	24,000	24,000	15,675	(8,325)	-	-	-	-
Total revenues	24,000	24,000	15,675	(8,325)	145,000	145,000	140,011	(4,989)
EXPENDITURES:								
Current:								
General government	-	-	-	-	120,243	122,243	161,621	(39,378)
Housing	3,619,095	3,619,095	523,190	3,095,905	-	-	-	-
Total expenditures	3,619,095	3,619,095	523,190	3,095,905	120,243	122,243	161,621	(39,378)
Excess (deficiency) of revenues over (under) expenditures	(3,595,095)	(3,595,095)	(507,515)	3,087,580	24,757	22,757	(21,610)	(44,367)
OTHER FINANCING SOURCES (USES):								
Transfers in	2,000,000	2,000,000	2,199,361	199,361	-	-	-	-
Transfers out	(105,619)	(105,619)	(78,270)	27,349	-	-	-	-
Total other financing sources (uses)	1,894,381	1,894,381	2,121,091	226,710	-	-	-	-
Net change in fund balances before extraordinary items	(1,700,714)	(1,700,714)	1,613,576	3,314,290	24,757	22,757	(21,610)	(44,367)
EXTRAORDINARY ITEM								
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	-	949,858	949,858	-	-	-	-
Net change in fund balances	(1,700,714)	(1,700,714)	2,563,434	4,264,148	24,757	22,757	(21,610)	(44,367)
Fund balances, July 1	(2,735,904)	(2,735,904)	(2,735,904)	-	(862,698)	(862,698)	(862,698)	-
Prior period adjustments	-	-	172,470	172,470	-	-	-	-
Fund balances, July 1, as restated	(2,735,904)	(2,735,904)	(2,563,434)	172,470	(862,698)	(862,698)	(862,698)	-
Fund balances, June 30	(4,436,618)	(4,436,618)	-	4,436,618	(837,941)	(839,941)	(884,308)	(44,367)

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUSINESS BOOSTER LOAN PROGRAM				ABANDONED VEHICLE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Licenses, permits and fees	-	-	-	-	91,000	91,000	43,979	(47,021)
Interest	3,000	3,000	-	(3,000)	-	-	-	-
Total revenues	3,000	3,000	-	(3,000)	91,000	91,000	43,979	(47,021)
EXPENDITURES:								
Current:								
General government	100,000	100,000	-	100,000	-	-	-	-
Public Safety	-	-	-	-	90,562	90,562	-	90,562
Total expenditures	100,000	100,000	-	100,000	90,562	90,562	-	90,562
Net change in fund balances	(97,000)	(97,000)	-	97,000	438	438	43,979	43,541
Fund balances, July 1	281,022	281,022	281,022	-	(52,125)	(52,125)	(52,125)	-
Fund balances, June 30	184,022	184,022	281,022	97,000	(51,687)	(51,687)	(8,146)	43,541

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	INCLUSIONARY HOUSING			Variance With Final Budget - Positive (Negative) \$
	Budgeted Amounts		Actual	
	Original	Final		
	\$	\$	\$	
REVENUES:				
Licenses, permits and fees	50,000	50,000	43,678	(6,322)
Interest	5,000	5,000	1,758	(3,242)
Miscellaneous	-	-	284,178	284,178
Total revenues	<u>55,000</u>	<u>55,000</u>	<u>329,614</u>	<u>274,614</u>
EXPENDITURES:				
Current:				
Housing	181,096	181,096	218,866	(37,770)
Total expenditures	<u>181,096</u>	<u>181,096</u>	<u>218,866</u>	<u>(37,770)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(126,096)</u>	<u>(126,096)</u>	<u>110,748</u>	<u>236,844</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(70,467)	(70,467)	(70,467)	-
Total other financing sources (uses)	<u>(70,467)</u>	<u>(70,467)</u>	<u>(70,467)</u>	<u>-</u>
Net change in fund balances	<u>(196,563)</u>	<u>(196,563)</u>	<u>40,281</u>	<u>236,844</u>
Fund balances, July 1	1,694,841	1,694,841	1,694,841	-
Prior period adjustments	-	-	39,929	39,929
Fund balances, July 1, as restated	<u>1,694,841</u>	<u>1,694,841</u>	<u>1,734,770</u>	<u>39,929</u>
Fund balances, June 30	<u>1,498,278</u>	<u>1,498,278</u>	<u>1,775,051</u>	<u>276,773</u>

CITY OF WATSONVILLE, CALIFORNIA
CITY OF WATSONVILLE - DEBT SERVICE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL				REDEVELOPMENT			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	-	-	-	-	7,779,544	7,779,544	2,755,784	(5,023,760)
Special assessment	149,072	149,072	171,703	22,631	-	-	-	-
Total revenues	149,072	149,072	171,703	22,631	7,779,544	7,779,544	2,755,784	(5,023,760)
EXPENDITURES:								
Debt service:								
Principal	1,189,089	1,189,089	1,189,088	-	1,075,579	1,075,579	949,579	126,000
Interest and fiscal charges	233,128	233,128	238,499	(5,371)	2,962,271	2,962,271	1,028,081	1,934,190
Total expenditures	1,422,217	1,422,217	1,427,587	(5,371)	4,037,850	4,037,850	1,977,660	2,060,190
Excess (deficiency) of revenues over (under) expenditures	(1,273,145)	(1,273,145)	(1,255,884)	17,260	3,741,694	3,741,694	778,124	(2,963,570)
OTHER FINANCING SOURCES (USES):								
Transfers in	1,273,145	1,273,145	1,273,145	-	607,926	607,926	132,450	(475,476)
Transfers out	-	-	-	-	(3,722,318)	(3,722,318)	(1,896,546)	1,825,772
Total other financing sources (uses)	1,273,145	1,273,145	1,273,145	-	(3,114,392)	(3,114,392)	(1,764,096)	1,350,296
Net change in fund balances before extraordinary items	-	-	17,261	17,260	627,302	627,302	(985,972)	(1,613,274)
EXTRAORDINARY ITEM								
Gain/Loss on transfer of assets and liabilities to RDA Successor Trust Fund	-	-	-	-	-	-	(1,134,040)	(1,134,040)
Net change in fund balances	-	-	17,261	17,260	-	-	(2,120,012)	(2,747,314)
Fund balance, July 1	914,979	914,979	914,979	-	2,149,052	2,149,052	2,149,052	-
Prior period adjustments	-	-	-	-	-	-	(29,040)	(29,040)
Fund balances, July 1, as restated	914,979	914,979	914,979	-	2,149,052	2,149,052	2,120,012	(29,040)
Fund balance, June 30	914,979	914,979	932,240	17,260	2,776,354	2,776,354	-	(2,776,354)

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
	\$	\$
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	14,014,625	14,014,625
Buildings and improvements	133,658,046	132,194,205
Machinery and equipment	11,511,463	10,803,899
Infrastructure	25,645,818	25,645,818
Construction in progress	<u>2,101,462</u>	<u>378,976</u>
Total Governmental Funds Capital Assets	<u><u>186,931,414</u></u>	<u><u>183,037,523</u></u>
 INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE		
General fund	143,831,127	139,937,236
Other special revenue funds	38,989,559	38,989,559
Capital leases	<u>4,110,728</u>	<u>4,110,728</u>
Total Governmental Funds Capital Assets	<u><u>186,931,414</u></u>	<u><u>183,037,523</u></u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2012

Function and Activity	Land	Buildings	Improvements	Machinery and Equipment	Infrastructure	Construction in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
City Manager	-	-	-	28,605	-	-	28,605
City Clerk	-	-	-	59,083	-	-	59,083
Community Develop.	-	-	-	99,770	-	-	99,770
Finance	-	-	-	570,513	-	-	570,513
Fire	-	778,870	226,800	1,840,273	-	-	2,845,943
Library	-	964,278	77,700	3,331,203	-	-	4,373,181
Nondepartmental	14,014,625	82,005,293	4,746,202	909,578	20,740,863	2,101,462	124,518,023
Parks and Recreation	-	3,070,166	4,969,743	945,659	-	-	8,985,568
Police	-	2,625,196	581,373	2,143,450	-	-	5,350,019
Public Works	-	21,342,531	12,269,894	1,583,329	4,904,955	-	40,100,709
Total Governmental Funds Capital Assets	<u>14,014,625</u>	<u>110,786,334</u>	<u>22,871,712</u>	<u>11,511,463</u>	<u>25,645,818</u>	<u>2,101,462</u>	<u>186,931,414</u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Function and Activity	Capital Assets	Additions	Deletions	Capital Assets
	Assets			Assets
	June 30, 2011			June 30, 2012
	\$	\$	\$	\$
City Manager	28,605	-	-	28,605
City Clerk	59,083	-	-	59,083
Community Develop.	99,770	-	-	99,770
Finance	570,513	-	-	570,513
Fire	2,810,343	35,600	-	2,845,943
Library	4,359,065	14,116	-	4,373,181
Nondepartmental	120,697,383	3,820,640	-	124,518,023
Parks and Recreation	8,979,398	6,170	-	8,985,568
Police	5,297,289	52,730	-	5,350,019
Public Works	40,136,074	-	(35,365)	40,100,709
Total Government Funds Capital Assets	<u>183,037,523</u>	<u>3,929,256</u>	<u>(35,365)</u>	<u>186,931,414</u>

STATISTICAL SECTION

This part of the City of Watsonville’s comprehensive annual financial report presents detailed information as a context for the understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends	112
These schedules contain trend information to help the reader understand how the city’s financial performance and well-being have changed over time.	
Revenue Capacity	119
These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	123
These schedules present information to help the reader assess the affordability of the city’s current levels of outstanding debt and the city’s ability to issue additional debt in the future.	
Demographic and Economic Information	134
These schedules offer the demographic and economic indicators to help the reader understand the environment within which the city’s financial activities take place.	
Operating Information	136
These schedules contain service and infrastructure data to help the reader understand how the information in the city’s financial report relates to the services the city provides and the activities it performs.	

SOURCE: Unless other wise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF WATSONVILLE, CALIFORNIA

**Net Assets By Component
Last Ten Fiscal Years**
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities										
Investment in capital assets, net of related debt	43,902	48,309	47,962	59,561	90,258	109,668	116,232	114,050	112,462	128,634
Restricted	11,427	19,282	19,237	26,448	28,461	31,184	23,467	31,320	46,586	39,086
Unrestricted	12,862	13,016	17,581	12,472	12,221	5,924	14,074	2,737	(18,060)	(7,011)
Total governmental activities net assets	<u>68,191</u>	<u>80,607</u>	<u>84,780</u>	<u>98,481</u>	<u>130,940</u>	<u>146,776</u>	<u>153,773</u>	<u>148,107</u>	<u>140,988</u>	<u>160,709</u>
Business-type activities										
Investment in capital assets, net of related debt	36,224	38,332	41,633	44,913	55,569	56,600	67,784	71,443	74,569	72,861
Restricted	-	-	-	-	-	-	-	-	2,834	-
Unrestricted	33,118	35,905	34,171	35,416	41,067	59,748	49,182	43,821	31,957	35,677
Total business-type activities net assets	<u>69,342</u>	<u>74,237</u>	<u>75,804</u>	<u>80,329</u>	<u>96,636</u>	<u>116,348</u>	<u>116,966</u>	<u>115,264</u>	<u>109,360</u>	<u>108,538</u>
Primary government										
Investment in capital assets, net of related debt	80,126	86,641	89,595	104,474	145,827	166,268	184,016	185,493	187,031	201,495
Restricted	11,427	19,282	19,237	26,448	28,461	31,184	23,467	31,320	49,420	39,086
Unrestricted	45,980	48,921	51,752	47,888	53,288	65,672	63,256	46,558	13,897	28,666
Total primary government net assets	<u>137,533</u>	<u>154,844</u>	<u>160,584</u>	<u>178,810</u>	<u>227,576</u>	<u>263,124</u>	<u>270,739</u>	<u>263,371</u>	<u>250,348</u>	<u>269,247</u>

CITY OF WATSONVILLE, CALIFORNIA

**Changes In Net Assets
Last Ten Fiscal Years**
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Expenses:										
Governmental activities:										
General government	12,290	11,142	13,851	10,825	11,031	13,913	10,777	9,100	8,010	7,729
Public safety	14,053	15,884	18,242	17,767	19,704	24,624	24,161	22,752	22,258	18,888
Housing	3,854	6,976	12,106	8,791	4,321	2,879	1,413	8,734	6,118	3,091
Highways and streets	4,094	6,126	3,844	4,144	4,142	5,643	4,686	6,656	7,775	8,926
Culture and recreation	4,802	4,908	5,491	4,920	4,475	5,319	5,509	7,393	7,498	7,510
Interest on long term debt	1,083	1,937	1,593	3,924	3,505	3,602	3,384	3,269	3,089	1,153
Total government activities	40,176	46,973	55,127	50,371	47,178	55,980	49,930	57,904	54,748	47,297
Business-type activities:										
Water	6,110	6,524	7,262	7,824	8,871	10,295	13,871	11,483	11,187	11,213
Sewer	6,342	7,149	7,398	7,857	8,440	8,517	8,886	9,335	9,342	9,842
Solid Waste	5,338	5,524	6,512	7,157	8,259	8,373	8,873	8,460	8,165	8,583
Airport	1,877	2,076	2,537	2,491	3,671	2,642	2,863	2,364	2,520	2,539
Total business-type activities	19,667	21,273	23,709	25,329	29,241	29,827	34,493	31,642	31,214	32,177
Total primary government	59,843	68,246	78,836	75,700	76,419	85,807	84,423	89,546	85,962	79,474
Program Revenues:										
Governmental activities:										
Charges for services:										
General government	4,125	11,756	6,950	7,404	5,687	3,985	3,894	4,768	4,177	3,095
Public safety	1,195	1,496	1,165	1,797	1,769	1,550	2,068	1,793	1,556	1,703
Housing	1,101	2,358	2,128	1,192	2,234	3,960	477	512	3,612	903
Highways and streets	2,701	2,257	1,774	2,612	3,006	3,583	2,779	2,757	3,586	16
Culture and recreation	1,207	600	608	756	858	613	3,632	1,029	697	1,165
Operating grants and contributions	1,349	2,260	5,348	5,746	18,079	12,850	5,220	5,311	3,443	6,906
Capital grants and contributions	4,360	6,802	9,792	7,767	10,012	3,436	1,737	2,732	2,546	962
Total governmental activities program revenues	16,038	27,529	27,765	27,274	41,645	29,977	19,807	18,902	19,617	14,750
Business-type activities:										
Charges for services:										
Water	7,490	7,897	8,104	8,757	13,875	25,460	12,884	9,089	8,513	10,119
Sewer	6,241	6,748	7,325	7,638	6,624	6,348	6,449	7,557	10,140	8,782
Solid Waste	5,842	6,240	7,548	8,373	8,229	8,689	7,798	7,890	8,521	8,712
Airport	1,613	1,629	1,874	2,032	2,380	2,558	2,239	2,057	1,973	2,229
Operating grants and contributions	467	435	252	243	950	811	669	1,046	1,828	990
Capital grants and contributions	592	1,504	611	1,358	5,407	6,309	1,393	2,018	128	172
Total business-type activities program revenues	22,245	24,453	25,714	28,401	37,465	50,175	31,432	29,657	31,103	31,004

Continued

CITY OF WATSONVILLE, CALIFORNIA

**Changes In Net Assets
Last Ten Fiscal Years**
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net (expense) / revenue										
Governmental activities	(24,138)	(19,444)	(27,362)	(23,097)	(5,533)	(26,003)	(30,318)	(39,001)	(35,132)	(32,547)
Business-type activities	2,578	3,180	2,005	3,072	8,224	20,348	(3,061)	(1,985)	(111)	(1,174)
Total primary government net expense	<u>(21,560)</u>	<u>(16,264)</u>	<u>(25,357)</u>	<u>(20,025)</u>	<u>2,691</u>	<u>(5,655)</u>	<u>(33,379)</u>	<u>(40,986)</u>	<u>(35,243)</u>	<u>(33,721)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	11,066	11,722	16,715	20,459	21,140	21,352	20,759	18,082	17,380	13,825
Sales taxes	8,087	8,298	8,446	9,786	10,202	11,165	9,969	9,207	10,101	9,774
Franchise taxes	1,101	1,064	1,115	428	183	157	159	401	606	708
Motor/vehicle taxes	3,806	2,262	1,142	1,268	1,251	1,195	1,051	1,299	1,803	1,522
Utility users taxes	2,775	2,678	2,733	2,840	2,966	2,955	2,775	2,711	2,938	2,934
Other taxes	734	1,937	1,192	927	1,006	1,188	977	961	1,075	98
Unrestricted investment earnings	1,020	926	1,257	1,206	1,635	1,441	1,126	1,245	873	2,190
Sale of capital assets	5	440	-	-	-	-	-	-	-	-
Total governmental activities	<u>28,594</u>	<u>29,327</u>	<u>32,600</u>	<u>36,914</u>	<u>38,383</u>	<u>39,453</u>	<u>36,816</u>	<u>33,906</u>	<u>34,776</u>	<u>31,051</u>
Business-type activities:										
Unrestricted investment earnings	1,049	724	1,097	1,346	2,165	2,142	3,780	455	1,116	724
Sale of capital assets	1	1	-	-	-	-	-	-	-	-
Total business-type activities	<u>1,050</u>	<u>725</u>	<u>1,097</u>	<u>1,346</u>	<u>2,165</u>	<u>2,142</u>	<u>3,780</u>	<u>455</u>	<u>1,116</u>	<u>724</u>
Total primary government	<u>29,644</u>	<u>30,052</u>	<u>33,697</u>	<u>38,260</u>	<u>40,548</u>	<u>41,595</u>	<u>40,596</u>	<u>34,361</u>	<u>35,892</u>	<u>31,775</u>
Change in net assets before extraordinary item										
Governmental activities	4,456	9,883	5,238	13,817	32,850	13,450	6,498	(5,095)	(356)	(1,496)
Business-type activities	3,628	3,905	3,102	4,418	10,389	22,490	719	(1,530)	1,005	(450)
Total primary government	<u>8,084</u>	<u>13,788</u>	<u>8,340</u>	<u>18,235</u>	<u>43,239</u>	<u>35,940</u>	<u>7,217</u>	<u>(6,625)</u>	<u>649</u>	<u>(1,946)</u>
Extraordinary items										
Governmental activities	-	-	-	-	-	-	-	-	-	21,010
Business-type activities	-	-	-	-	-	-	-	-	-	-
Total primary government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,010</u>
Change in net assets										
Governmental activities	4,456	9,883	5,238	13,817	32,850	13,450	6,498	(5,095)	(356)	19,514
Business-type activities	3,628	3,905	3,102	4,418	10,389	22,490	719	(1,530)	1,005	(450)
Total primary government	<u>8,084</u>	<u>13,788</u>	<u>8,340</u>	<u>18,235</u>	<u>43,239</u>	<u>35,940</u>	<u>7,217</u>	<u>(6,625)</u>	<u>649</u>	<u>19,064</u>

Concluded

CITY OF WATSONVILLE, CALIFORNIA

**Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years**

(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Motor/Vehicle Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$	\$
2003	11,066	8,087	1,101	3,806	2,775	734	27,569
2004	11,722	8,298	1,064	2,262	2,678	1,937	27,961
2005	16,715	8,446	1,115	1,142	2,733	1,192	31,343
2006	20,458	9,785	428	1,267	2,840	927	35,705
2007	21,140	10,202	183	1,251	2,966	1,006	36,748
2008	21,352	11,165	157	1,195	2,955	1,188	38,012
2009	20,850	9,969	159	1,051	2,775	977	35,781
2010	18,082	9,207	401	1,299	2,711	961	32,661
2011	17,380	10,101	606	1,803	2,938	1,075	33,903
2012	13,825	9,774	708	1,521	2,934	98	28,860

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

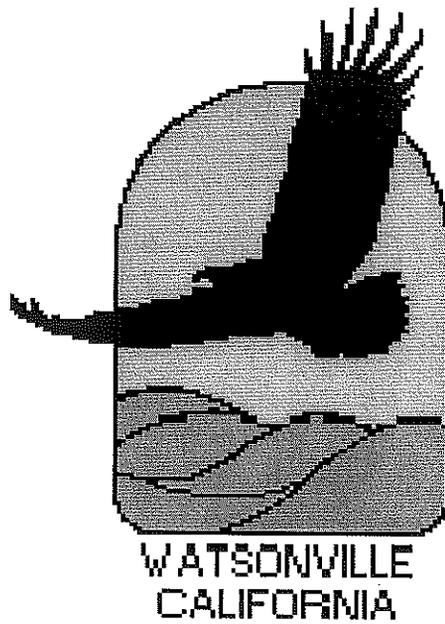
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Taxes	27,508	27,961	31,343	34,572	36,748	38,012	35,781	32,660	33,903	28,860
Licenses, permits, and fees	4,545	10,880	5,911	7,678	6,649	4,716	4,221	2,970	3,506	3,272
Intergovernmental	6,111	8,051	11,799	14,937	13,171	15,995	8,889	5,608	4,461	7,670
Charges for services	2,715	2,953	2,807	3,144	2,083	3,949	3,581	4,326	5,243	4,773
Fines	206	547	478	564	466	608	666	984	757	804
Interest	1,333	1,318	2,529	2,821	3,534	2,463	1,783	1,650	1,127	2,344
Special assessment	91	83	83	419	153	156	144	147	112	172
Miscellaneous	1,190	1,466	2,160	1,044	2,219	4,203	3,519	1,929	449	956
Total revenues	43,699	53,259	57,110	65,179	65,023	70,102	58,584	50,274	49,558	48,851
Expenditures										
Current:										
General government	10,273	9,993	11,483	10,636	10,298	8,937	10,924	7,567	6,314	6,162
Public safety	13,206	14,728	17,024	17,987	18,759	16,415	20,807	21,738	21,199	20,336
Housing	2,042	2,704	6,901	4,575	4,285	1,933	1,244	8,720	5,919	3,191
Streets	2,492	2,776	2,964	3,666	3,875	3,647	3,913	6,084	7,225	9,471
Culture and recreation	3,886	4,112	4,402	4,449	3,955	3,156	4,162	6,039	5,999	6,777
Capital outlay	7,911	11,317	17,591	29,609	33,143	37,607	8,997	417	-	-
Debt service:										
Principal	602	629	2,025	1,514	1,715	1,828	1,877	1,993	8,549	2,139
Interest and fiscal charges	1,079	1,681	1,344	3,902	3,543	3,602	3,436	3,259	3,086	1,267
Bond issuance costs	-	692	-	-	-	-	-	-	-	-
Total expenditures	41,491	48,632	63,734	76,338	79,573	77,125	55,360	55,817	58,291	49,343
Excess (deficiency) of revenues over (under) expenditures	2,208	4,627	(6,624)	(11,159)	(14,550)	(7,023)	3,224	(5,543)	(8,733)	(492)
Other financing sources (uses)										
Sale of fixed assets	5	440	-	-	-	-	-	-	-	-
Bond/loan proceeds	30	33,698	738	-	179	-	-	-	-	3,014
Payment to defease bonds	-	(1,819)	-	-	-	-	-	-	-	-
Operating transfers in	5,621	5,217	7,536	7,827	10,550	7,916	7,169	9,460	18,321	5,883
Operating transfers out	(5,621)	(5,217)	(7,536)	(7,827)	(10,550)	(7,916)	(7,169)	(9,460)	(18,321)	(5,883)
Total other financing sources (uses)	35	32,319	738	-	179	-	-	-	-	3,014
Net change in fund balances before extraordinary items	2,243	36,946	(5,886)	(11,159)	(14,371)	(7,023)	3,224	(5,543)	(8,733)	2,522
	-	-	-	-	-	-	-	-	-	(228)
Net change in fund balances	2,243	36,946	(5,886)	(11,159)	(14,371)	(7,023)	3,224	(5,543)	(8,733)	2,294
Debt service as a percentage of noncapital expenditures	5.3%	6.7%	7.9%	13.1%	12.8%	15.9%	12.9%	10.5%	24.9%	7.4%

* Net asset additions was used to get current capital outlay as the CIP account was transferred to appropriate divisions..

** Capital Outlay reconciliation amount was used for the percentage calculation. It reduced noncapital expenditures.

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CITY OF WATSONVILLE, CALIFORNIA

General Governmental Tax Revenues By Source

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Motor/Vehicle Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$	\$
2003	11,066	8,087	1,101	3,806	2,775	673	27,508
2004	11,722	8,298	1,064	2,262	2,678	1,937	27,961
2005	16,715	8,446	1,115	1,142	2,733	1,192	31,343
2006	19,323	9,785	428	1,267	2,840	929	34,572
2007	21,140	10,202	183	1,251	2,966	1,006	36,748
2008	21,352	11,165	157	1,195	2,955	1,188	38,012
2009	20,850	9,969	159	1,051	2,775	977	35,781
2010	18,082	9,207	401	1,299	2,711	961	32,661
2011	17,380	10,101	606	1,803	2,938	1,075	33,903
2012	13,825	8,462	2,934	2,773	769	97	28,860

CITY OF WATSONVILLE, CALIFORNIA

**Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years**
(amounts expressed in thousands)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property	Unsecured Property	Less: Tax Exempt Property	Taxable Assessed Value	Total Direct Tax Rate (1)	Estimated Actual Taxable Value	Assessed Value as a % of Actual Taxable Value
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
2003	1,484,687	580,389	N/A	191,900	N/A	121,887	2,135,089	1.00	2,135,089	1.00
2004	1,648,865	664,307	N/A	188,113	N/A	124,721	2,376,564	1.00	2,376,564	1.00
2005	1,927,448	779,823	N/A	208,514	N/A	125,971	2,789,814	1.00	2,789,814	1.00
2006	2,276,093	811,406	N/A	217,827	N/A	146,664	3,158,662	1.00	3,158,662	1.00
2007	2,345,741	518,890	93,057	323,246	173,577	147,425	3,307,086	1.00	3,307,086	1.00
2008	2,625,675	531,301	104,505	322,921	228,186	150,749	3,661,839	1.00	3,661,839	1.00
2009	2,526,547	555,128	106,765	335,411	243,733	156,713	3,610,871	1.00	3,610,871	1.00
2010	2,105,051	572,622	111,366	333,863	233,020	146,407	3,209,515	1.00	3,209,515	1.00
2011	2,060,427	570,451	109,662	330,169	220,499	162,368	3,128,840	1.00	3,128,840	1.00
2012	2,072,140	566,131	104,236	332,645	211,702	169,521	3,117,333	1.00	3,117,333	1.00

Notes: Source: County Assessor Data, MuniServices LLC
 Santa Cruz County Auditor/Controller Data, MuniServices LLC
 Source: 2005-06 and Prior, Previously published CAFR Reports
 Source: (N/A) Data Unavailable
 (1.) Total Direct Tax Rate is represented by TRA 02-021
 Based on these calculations a multiplier value was extrapolated and applied to current assessed values.

CITY OF WATSONVILLE, CALIFORNIA

**Property Tax Rates - Direct
and Overlapping
(Per \$100 of Assessed Value)
Last Ten Years**

Year	Basic Countywide Levy	School Districts	Retirement	Total
2003	1.00000	0.051	0.134	1.18500
2004	1.00000	0.068	0.134	1.20200
2005	1.00000	0.066	0.134	1.20000
2006	1.00000	0.052	0.110	1.16200
2007	1.00000	0.052	0.110	1.16200
2008	1.00000	0.055	0.077	1.13200
2009	1.00000	0.060	0.077	1.13700
2010	1.00000	0.066	0.077	1.14300
2011	1.00000	0.066	0.077	1.14300
2012	1.00000	0.071	0.077	1.14800

Source: City of Watsonville - Accounts Payable Department/MuniServices, LLC

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2012
(amounts expressed in thousands)

	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$		%	\$		%
Watsonville Hospital Corp.	57,906	1	1.86	51,963	1	3.52
S. Martinelli Co.	35,702	2	1.15	19,407	2	1.32
Freedom Assoc LLC	19,836	3	0.64			
Hd Development of Maryland Inc	18,282	4	0.59			
OW George Jr. Trustee, etal	17,638	5	0.57			
Granite Construction Co.	17,454	6	0.56	19,300	3	1.31
Target Stores	15,523	7	0.50			
Watsonville Square Llc	14,911	8	0.47	12,932	7	0.88
BG Terminal	14,452	9	0.46			
Meadows Mobile Manor Llc	13,517	10	0.43			
Agrilink Foods Inc.				17,876	4	1.16
NC Foods Inc.				14,876	5	1.01
Albertsons Inc.				13,840	6	0.94
Indalex West Inc.				12,406	8	0.84
Sanmina SCI Corp.				11,359	9	0.77
WRI Freedom Center LP				11,284	10	0.77
Totals	<u>225,221</u>		<u>7.23</u>	<u>185,243</u>		<u>12.52</u>

Source: MBIA Muni Services Company

Note: Will update until ten years of comparative data reached.

CITY OF WATSONVILLE, CALIFORNIA

Property Tax Collection Last Ten Fiscal Years

Fiscal Year	Total Tax Levy \$	Current Tax Collections \$	Percent of Levy Collected	Supplemental Tax Collections \$	Delinquent Tax Collections \$	Total Tax Collections \$
2003	5,081,243	5,081,243	100%	118,095	-	5,199,338
2004	5,884,791	5,884,791	100%	95,823	-	5,980,614
2005	6,690,397	6,690,397	100%	284,052	-	6,974,449
2006	7,432,188	7,432,188	100%	322,301	-	7,754,489
2007	8,062,419	8,062,419	100%	587,280	-	8,649,699
2008	7,911,034	7,911,034	100%	248,176	-	8,159,210
2009	7,431,394	7,431,394	100%	100,385	-	7,531,779
2010	6,621,626	6,621,626	100%	32,949	-	6,654,575
2011	6,314,307	6,314,307	100%	37,941	-	6,352,248
2012	6,445,789	6,445,789	100%	59,830	-	6,505,619

General Real Estate Property Taxes excludes Redevelopment Tax Increment which is included was included within the Agency's Annual Financial Report.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Ratio of Outstanding Debt By Type
Last Ten Fiscal Years**

(amounts expressed in thousands, except per capita amount)

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
	<u>General Obligation Debt</u>	<u>Special Assessment Debt</u>	<u>Capital Leases</u>	<u>Revenue Bonds</u>	<u>General Obligation Debt</u>	<u>Capital Leases</u>			
	\$	\$	\$	\$	\$	\$			
2003	4,007	630	80	19,800	2,153	3,373	30,043	4.27%	0.627
2004	30,077	584	7,725	20,115	2,345	3,131	63,977	8.67%	1.325
2005	28,690	1,259	7,150	18,830	2,647	2,878	61,454	N/A	1.239
2006	28,097	1,143	6,345	17,485	2,600	2,611	58,281	N/A	1.161
2007	27,290	1,057	5,684	16,085	2,677	2,330	55,123	N/A	1.075
2008	26,399	962	4,824	41,970	2,749	2,036	78,940	N/A	1.527
2009	26,422	868	3,934	40,430	3,148	1,726	76,528	8.63%	1.484
2010	26,895	773	3,017	38,841	3,447	1,400	74,373	8.36%	1.443
2011	26,325	674	2,070	34,060	7,242	-	70,371	8.01%	1.373
2012*	9,508	575	1,087	32,949	7,589	-	51,708	5.95%	1.002

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics on page 133 for the personal income and population data.

* Redevelopment Bonds were removed on 1/31/2012.

CITY OF WATSONVILLE, CALIFORNIA

**Ratio of Net General Obligation Debt Outstanding
Last Ten Fiscal Years**
(amounts expressed in thousands, except per capita amount)

Fiscal Year	General Obligation Debt \$	Less: Amounts Available in Debt Service Fund \$	Total \$	Percentage of Estimated Actual Taxable Value of Property	Per Capita \$
2003	29,413	37	29,376	0.86%	163
2004	63,393	864	62,529	1.65%	77
2005	60,195	801	59,394	1.33%	84
2006	57,138	796	56,342	1.12%	89
2007	54,066	825	53,241	1.14%	94
2008	77,978	858	77,120	1.69%	67
2009	75,660	887	74,773	2.25%	69
2010	73,600	894	72,706	2.24%	71
2011	69,697	915	68,782	2.24%	75
2012	51,133	932	50,201	1.62%	102

Note: Detail of the city's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 111 for estimated actual property value data.

Population data can be found in the Schedule of Demographic and Economic Statistics on page 132.

CITY OF WATSONVILLE, CALIFORNIA

**Legal Debt Margin Information
Last Ten Fiscal Years**
(amounts expressed in thousands)

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	87,262	96,175	112,437	118,450	118,487	142,972	135,408	120,357	117,333	122,989
Total net debt applicable to limit	2,003	2,004	1,205	27,301	26,494	2,008	25,535	26,001	26,728	5,853
Legal debt margin	<u>85,259</u>	<u>94,171</u>	<u>111,232</u>	<u>91,149</u>	<u>91,993</u>	<u>140,964</u>	<u>109,873</u>	<u>94,356</u>	<u>90,605</u>	<u>117,136</u>
Total net debt applicable to the limit as a percentage of debt limit	2.295%	2.084%	1.072%	23.049%	22.360%	1.404%	18.858%	21.603%	22.780%	4.759%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	3,117,333
Add back: exempt real property	<u>162,368</u>
Total assessed value	3,279,701
Debt Limit = 3.75% of assessed valuation	122,989
Debt applicable to limit	6,785
Less: Amount set aside for repayment of general obligation debt	<u>932</u>
Total net debt applicable to limit	<u>5,853</u>
Legal debt margin	<u><u>\$ 117,136</u></u>

CITY OF WATSONVILLE, CALIFORNIA

Computation of Direct and Overlapping Bonded Debt June 30, 2012

(amounts expressed in thousands, except per capita amount)

Jurisdiction	Total Debt Outstanding	Percentage Applicable	Estimated Share of Overlapping Debt
	\$		\$
Direct Debt:			
City of Watsonville	8,447	100%	8,447
Total of Direct Debt			<u><u>8,447</u></u>
Overlapping Debt:			
City of Watsonville 1915 Act Bonds	575	100%	575
Cabrillo Joint Community College District	156,042	9.03%	14,095
Pajaro Valley Unified School District	51,660	23.16%	11,964
Pajaro Valley Unified School District Certificates of Participation	2,655	23.16%	615
Cabrillo Joint Community College District Certificates of Participation	1,735	9.03%	157
Santa Cruz County Certificates of Participations	70,818	9.15%	6,483
Santa Cruz County Office of Education	10,930	9.15%	1,000
Monterey Bay Unified Air Pollution Control Authority	1,755	3.23%	57
Total Overlapping Debt	<u><u>296,170</u></u>		<u><u>34,946</u></u>
Total Direct and Overlapping Bonded Debt			<u><u><u>43,393</u></u></u>

Percentage of overlapping agency's assessed valuation located within boundaries of the city.

Share of Santa Cruz County Emergency Communications Center obligations.

Excludes certificates of participation supported by sales tax revenue.

Excludes postretirement liability.

Excludes tax and revenue anticipation notes, enterprise revenue,

mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CITY OF WATSONVILLE, CALIFORNIA

Historical and Projected Library Special Sales Tax Revenue

Fiscal Year	Gross Revenues
	\$
*2001-02	2,089,576
2002-03	2,166,443
2003-04	2,113,456
2004-05	2,286,127
2005-06	2,698,198
2006-07	2,758,601
2007-08	2,922,527
2008-09	2,754,482
2009-10	2,299,206
2010-11	2,692,677
2011-12	2,431,380
**2012-13	2,233,900

Library Certificates of Participation outstanding
as of 6-30-12 \$1,005,000.

Total Library revenues received from Measure B Taxes
as of 6/30/12 \$32,540,494

* Fiscal year 2002, this number was increased by \$322,345 for
funds incorrectly allocated to the City of Santa Cruz that will
be repaid to the City over the next eight fiscal years.

** Projected within City of Watsonville budget.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Library Special Revenues
Certificates of Participation
Debt Service Coverage**

Fiscal Year	Gross Revenues	Debt ** Service	Coverage
	\$	\$	
2004-05	2,286,127	1,046,000	218.56%
2005-06	2,698,198	1,046,000	257.95%
2006-07	2,758,601	1,046,000	263.73%
2007-08	2,922,527	1,046,000	279.40%
2008-09	2,754,482	1,046,000	263.33%
2009-10	2,299,206	1,046,000	219.81%
2010-11	2,692,677	1,046,000	257.43%
2011-12	2,431,380	1,046,000	232.45%
2012-13*	2,233,900	1,046,000	213.57%

* This amount is the estimated revenue by the City of Watsonville.

** Maximum annual debt service.

Years will be added until ten years of data is reached.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Water Revenue Bond Coverage
Last Ten Fiscal Years**

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
2002-03	8,025,689	5,214,380	2,811,309	730,671	384.76%
2003-04	8,651,909	5,623,077	3,028,832	732,256	413.63%
2004-05	8,823,153	6,230,007	2,593,146	732,396	354.06%
2005-06	9,444,900	6,838,936	2,605,964	723,476	360.20%
2006-07	19,240,472	6,438,844	12,801,628	723,676	1768.97%
2007-08	32,555,179	6,433,291	26,121,888	734,001	3558.84%
2008-09	17,406,267	7,456,703	9,949,564	*2,025,335	491.26%
2009-10	11,032,952	6,976,170	4,056,782	2,026,054	200.23%
2010-11	9,571,054	7,740,204	1,830,850	1,294,059	141.48%
2011-12	10,960,793	8,217,408	2,743,385	1,294,059	212.00%

Direct operating expenses exclude depreciation expense and includes net operating transfers.

Debt service is for the next fiscal year.

* Debt service for new 2007 Water Revenue Bonds added.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Estimated Water Revenue Bond Coverage
Next Five Fiscal Years**

Fiscal Year	(1) Gross Revenues	(2) Direct Operating Expenses	Net Revenues available for Debt Service	(3) Debt Service	Coverage
	\$	\$	\$	\$	
2012-13	11,289,617	7,115,693	4,173,923	1,294,059	322.55%
2013-14	11,628,305	7,258,007	4,370,298	1,294,059	337.72%
2014-15	11,977,154	7,403,167	4,573,987	1,294,059	353.46%
2015-16	12,336,469	7,551,231	4,785,238	1,294,059	369.79%
2016-17	12,706,563	7,702,255	5,004,308	2,094,059	238.98%

(1) Revenues are assumed to inflate by 3 percent annually. Includes payment to City from PVWMA under the Recycled Water Agreement.

(2) Operating expenses are assumed to inflate by two percent annually. Does not include additional expenses to operate the Recycled Water Facility.

(3) Assumes that no additional Bonds will be issued.

Note: Continuing disclosure agreement requires only five years of projected data.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Ten Largest Customers and Percentage of Total
Water Revenues
Fiscal Year 2011-12**

User	Revenues	Percentage of Total
	\$	%
1 Martinelli & Company	159,434	1.58
2 Pajaro Valley Unified School District	130,823	1.29
3 Blue Ribbon Frozen Foods	85,714	0.85
4 Sunny Meadow Apartments	55,739	0.55
5 Meadows Manor Apartments	53,182	0.53
6 Pinto Lake Mobile Estates	46,959	0.46
7 Bac Field Services	41,038	0.41
8 H A Rider & Son	24,898	0.25
9 Green Valley Village	23,486	0.23
10 Watsonville Community Hospital	23,486	0.23
 Total Top Ten	<u>644,759</u>	<u>6.37</u>
 Total Revenues	<u><u>10,119,068</u></u>	<u><u>100.00</u></u>

Source: City of Watsonville, Water Department

CITY OF WATSONVILLE, CALIFORNIA

**Water Service Accounts
Last Ten Calendar Years**

Year	Single/Multiple Family Residential	Commercial	Industrial	Other	Totals
2003	11,474	1,293	32	743	13,542
2004	11,920	1,445	31	599	13,995
2005	13,602	1,285	21	498	15,406
2006	13,749	1,432	24	633	15,838
2007	13,768	1,357	13	350	15,488
2008	14,018	1,405	20	353	15,796
2009	12,675	1,526	19	353	14,573
2010	12,759	1,508	20	353	14,640
2011	12,759	1,508	20	353	14,640
2012	12,730	1,568	17	369	14,684

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Service Area Water Deliveries
Last Ten Calendar Years**

Calendar Year	Gallons Delivered (1)
2002	2,373.1
2003	2,306.1
2004	2,377.1
2005	2,288.3
2006	2,287.2
2007	2,387.4
2008	2,387.0
2009	2,263.2
2010	2,097.7
2011	2,204.4

(1) Millions

Source: City of Watsonville, Water Department

CITY OF WATSONVILLE, CALIFORNIA

**Demographic and Economic Statistics
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal (2) Income (amounts expressed in thousands) \$</u>	<u>Per Capita Personal Income \$</u>	<u>Median Age (3)</u>	<u>School (4) Enrollment</u>	<u>Unemployment Rate (5)</u>
2003	47,950	703,105	14.663	N/A	21,790	16.40%
2004	48,300	737,865	15.277	N/A	21,612	15.50%
2005	49,601	N/A	N/A	28.7	21,473	12.90%
2006	50,211	N/A	N/A	30.3	21,295	15.30%
2007	51,258	N/A	N/A	33.3	21,101	10.70%
2008	51,703	N/A	N/A	28.1	21,619	14.00%
2009	51,555	886,385	17.193	28.9	21,024	21.60%
2010	51,916	889,425	17.132	27.3	19,381	23.40%
2011	51,243	887,062	17.311	27.3	19,542	22.40%
2012	51,586	704,593	13.659	29.2	19,914	20.50%

1. California State Department of Finance.
 2. State of California Personal Income Tax Statistics.
 3. United State of America Statistics.
 4. Santa Cruz County Education Demographics.
 5. State of California Employment Development Department.
- N/A - Information was not available for this item.

CITY OF WATSONVILLE, CALIFORNIA

**Principal Employers
Current Fiscal Year and Ten Years Ago**

	<u>2012</u>			<u>2002</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Pajaro Valley Unified School District	2,066	1	11.95%	2,100	1	13.39%
Watsonville Community Hospital	662	2	3.83%	688	3	4.30%
Fox Factory	400	3	2.31%			
West Marine Products	407	4	2.35%	542	4	2.87%
City of Watsonville *	362	5	2.09%	476	7	3.34%
Target	237	6	1.37%			
Del Mar Food Products, Inc	200	7	1.16%	500	5	3.19%
S Martinelli & Co.	180	8	1.04%			
Mi Pueblo Food Center	172	9	1.00%			
Couch Distributing	165	10	0.95%			
Agrilink Foods, Inc.				750	2	5.06%
Granite Construction Company				480	6	3.06%
Graniterock Company				460	8	2.93%
Indalex West				216	9	2.39%
San Mina - SCI				200	10	1.50%
Total	<u>4,851</u>		<u>28.05%</u>	<u>6,412</u>		<u>42.03%</u>

* Full time equivalent employees

Source: U.S. Census Bureau & City of Watsonville Business License data

CITY OF WATSONVILLE, CALIFORNIA

**Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years**

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
General Government	*	19	19	19	19	8	7	7	6	6	7
					*/***						
City Clerk	N/A	N/A	N/A	N/A	***	4	4	4	4	4	4
Community Development	18	18	18	19	17	19	16	16	15	16	
Finance	17	17	17	17	*	24	25	25	24	22	22
Fire	36	35	35	35	36	40	40	36	36	36	
Police											
Officers	67	64	64	64	72	73	75	74	70	70	
Civilians	21	25	25	25	20	21	21	19	16	18	
Library	26	26	26	26	26	26	25	25	24	24	
Parks & Community Services	**	36	36	36	37	38	37	33	28	30	
Public Works	26	26	26	26	26	26	24	22	17	17	
Airport	5	5	5	5	7	7	7	8	8	8	
LLMAD	-	-	-	1	1	1	1	1	1	1	
Parking Garage	-	-	-	2	2	2	3	3	2	-	
Redevelopment and Housing	10	10	10	10	7	8	8	8	7	10	
Solid Waste	31	31	31	33	36	37	36	35	34	34	
Wastewater	33	33	36	36	35	38	38	41	42	41	
Water	24	24	24	26	25	27	27	28	30	30	
	369	369	372	380	383	399	394	383	362	368	

* Information Services and Geological Information Services Divisions were transferred out of the Finance Department into the General Government Department and then moved back to Finance Department..

** Enterprise Community Grant and Neighborhood Service staff were transferred into Parks and Community Services as grant funding when these activates ended.

***City Clerk Department was created by City Council and staff moved out of General Government.

Source: City of Watsonville's Biennial Budget documents.

CITY OF WATSONVILLE, CALIFORNIA

Operating Indicators by Function
Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government:										
City Council meetings	25	25	24	27	24	21	27	23	24	25
Resolutions processed	384	385	320	249	311	243	232	186	209	158
Recruitments	27	31	43	25	42	29	25	12	21	36
Community Development:										
Planning application reviews	400	500	520	425	486	543	451	373	341	289
Construction inspections	4,548	13,225	9,006	7,000	6,208	4,361	3,344	2,470	1,508	1,459
Building Permits	1,184	1,239	918	1,160	978	727	1,032	1,757	1,175	766
Finance:										
Payroll checks issued	12,917	13,733	13,548	12,980	12,188	13,477	13,446	13,344	13,575	12,784
Utility accounts	13,091	13,274	14,035	14,433	14,466	15,541	14,546	15,980	14,833	14,684
A/P checks issued	9,336	9,063	9,155	9,198	9,560	9,054	8,697	8,859	7,879	7,634
Fire:										
Field incidents dispatched	3,312	3,354	3,065	3,367	3,459	3,889	3,552	3,896	4,590	4,734
Library:										
Items used/checked out	342,476	379,332	385,010	390,000	337,018	395,000	397,428	257,195	327,961	231,384
Parks & Community Services:										
Facility Drop In Totals	1,768	1,364	1,494	1,187	1,524	1,824	2,671	1,386	1,315	919
Police:										
Moving and Parking Citations	12,366	13,248	14,387	16,567	15,926	14,854	15,807	16,709	10,599	12,161
Service Calls Dispatch	62,000	57,667	54,819	58,559	61,745	81,281	81,303	61,643	57,651	62,047
URC Crime Rate (# crimes/1,000 population, calendar years)	48	50	43	46	46	52	43	42	32	32
Wastewater:										
Annual volume of septage treated (in million gallons)	7.62	7.62	9.62	9.62	4.90	7.11	7.17	7.45	7.12	6.65
Water:										
Water production (acre feet)	7,588	7,804	7,574	7,915	8,481	8,634	8,806	8,834	7,300	7,758
Solid Waste:										
Refuse handled (tons)	30,029	35,133	37,935	42,789	39,334	36,539	31,484	35,179	32,936	32,812
Recycled material (tons)	4,632	5,305	5,540	5,554	5,560	5,913	6,016	6,023	4,006	6,258

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

Function	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	18	18	18	18	18	19	19	18	18	18
Patrol motorcycles	4	5	5	5	5	5	5	6	6	6
Library:										
Buildings	2	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	17	21	21	21	24	21	21	21	21	21
Acreage of parks	62.5	65.0	65.0	65.0	85.0	65.0	85.0	85.0	85.0	85.0
Community Centers	5	5	5	6	6	6	6	6	6	6
Public Works:										
Miles of streets	85	85	96	96	96	96	96	96	96	96
Airport:										
Runways	2	2	2	2	2	2	2	2	2	2
Wastewater:										
Treatment plants	1	1	1	1	1	1	1	1	1	1
Capacity of treatment plant* *(gallons per day in millions)	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	12.1
Water:										
Maximum pumping capacity*	19.6	19.6	19.6	19.6	19.6	18.7	18.7	18.7	18.7	18.7
Average consumption* *(gallons per day in millions)	7.0	7.0	7.0	7.0	7.0	6.3	6.3	6.3	6.3	6.3
Solid Waste:										
Collection trucks	13	13	13	13	20	20	20	20	20	19

Source: City of Watsonville departments