

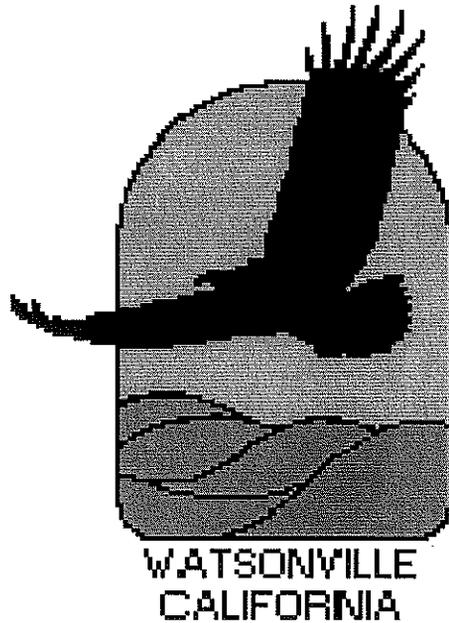
COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Watsonville, California
Fiscal Year Ending
June 30, 2011



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City of Watsonville, California

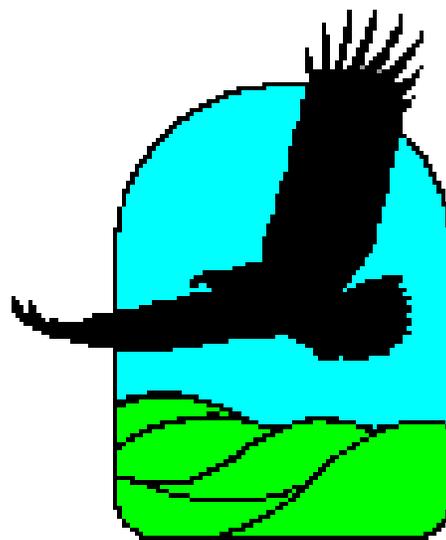
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Prepared by the Finance Department
Marc Pimentel, Administrative Services Director



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WATSONVILLE
CALIFORNIA

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2011

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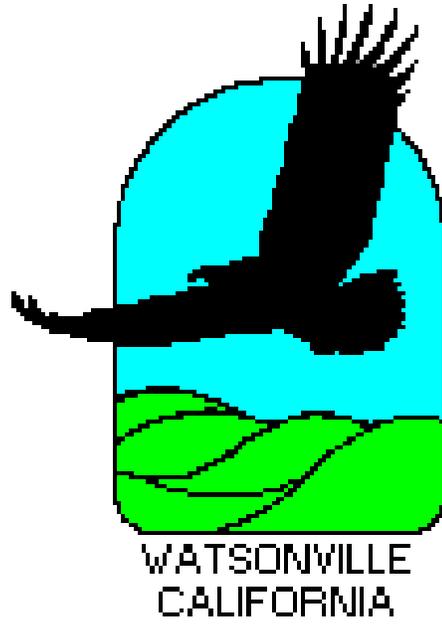
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INTRODUCTORY SECTION

CITY OF WATSONVILLE

"Opportunity through diversity; unity through cooperation"



ADMINISTRATION BUILDING

275 Main Street, Suite 400
Fourth Floor
Fax 831.761.0736

MAYOR & CITY COUNCIL

275 Main Street, Suite 400
Fourth Floor
831.768.3008

CITY MANAGER
831.768.3010

CITY ATTORNEY
831.768.3030

CITY CLERK
831.768.3040

PERSONNEL
831.768.3020

CITY HALL OFFICES

250 Main Street

COMMUNITY
DEVELOPMENT
831.768.3050

Fax 831.728.6173

FINANCE
831.768.3450

Fax 831.763.4066

PUBLIC WORKS &
UTILITIES
831.768.3100

Fax 831.763.4065

PURCHASING
831.768.3461

Fax 831.763.4066

REDEVELOPMENT & HOUSING

831.768.3080
Fax 831.763.4114

AIRPORT

100 Aviation Way
831.768.3480
Fax 831.763.4058

FIRE

115 Second Street
831.768.3200
Fax 831.763.4054

LIBRARY

275 Main Street, Suite 100
First Floor
831.768.3400
Fax 831.763.4015

PARKS & COMMUNITY SERVICES

30 Maple Avenue
831.768.3240
Fax 831.763.4078

December 19, 2011

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

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) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to the requirements, we hereby issue the comprehensive annual financial report of the City of Watsonville for the fiscal year ended June 30, 2011.

The report consists of management's representation concerning the finances of the City of Watsonville. 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 of Watsonville 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.

The City of Watsonville's financial statements have been audited by Moss, Levy and Hartzheim L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide an unqualified opinion that the financial statements of the City of Watsonville for the fiscal year ended June 30, 2011, are free of material misstatement.

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 of Watsonville's financial statements for the fiscal year ended June 30, 2011, 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 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.

The Governmental Accounting Standards Board 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.

Profile of the Government

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 51,916 people as of January 1, 2011.

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.

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 Watsonville, the Redevelopment Agency of the City of Watsonville is included in this report. Additional information can be found on this entity in Note 1, page 47 in the notes to the financial statements.

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, redevelopment low income 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 96.

Factors Affecting Financial Condition

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.

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 have 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 53% (from a revised \$649,500 to \$305,000 in 2010). 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.

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 2011 sales are on pace for 240 units sold.

Watsonville also has a higher unemployment rate in comparison to the rest of Santa Cruz County. According to the State Employment Development Department, the average estimated unemployment rate at the end of fiscal year 2010/11 was 23.6% for Watsonville and 11.4% 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 glimpse of how the local economy is doing. Property tax provides a glimpse 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. 2010/11 collections declined by 1.5%.

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 2011/12 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 2011/12.

During the coming 2010/11 Fiscal Year, the City's revenues are likely to stabilize, lead 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 and sales tax projections may have reached their floor during 2010/11 with a slight improvement for 2011/12. However, the large quantity of home foreclosures and, in turn high unemployment rates (averaged 25.6% during 2010/11) will continue to suppress revenue growth lower than neighboring communities.

Property tax revenue trends may fluctuate in the upcoming years. There still remains a large inventory of homes near or under the threat of foreclosure. Since December 2010, little improvement in the local housing market has been seen. In December 2010, Realtytrac reported that there were 516 homes in the "Watsonville" area in foreclosure and 146 in pre-foreclosure. In December 2011, Realtytrac reported there were 511 homes in foreclosure and 147 in pre-foreclosure. Home prices are lower through this point in 2011 than 2010. For the first three quarters of 2010, Median home prices within Watsonville averaged \$306,833, as compared to a lower \$282,000 for the same time period for 2011. If home values continue to decline, it will result in lower assessed valuation and lower property tax revenues for the City. Although the County has forecasted nearly a 1.5% increase in the City's 2011/12 assessed valuation, future year's could still experience small declines.

Sales tax collections are projected to improve for 2011/12 and 2012/13 as vacant retail space within the City is filled and small but positive increases in local consumer spending continues. 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 are showing signs of sizable increases as consumers and businesses are replacing their older vehicles after delaying purchase decisions earlier within this recession. New auto sales were up 13.0% for the June 2011

quarter as compared to the same quarter for 2010. If these trends continue, it could lead to larger increases in vehicle license fees in the coming years. 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 increases tax collection in the coming years. Public Safety funding is likely to keep pace or increase due in large part to Federal security and Federal Stimulus grants. However, public safety funding will be at risk as that State of California presents options to offset its currently projected \$16.5 billion deficit (\$12.8 Billion projected through June 2013 with a possible \$3.7 Billion deficit from 2011/12).

Budget deficits may continue to remain a part of the City's operations. During the 2010/11 fiscal year, under the City Council's direction, management built a strategy to balance the City's 2011/12 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 \$1.926 million projected General Fund deficit for 2011/12 was eliminated through major employee concessions, elimination of General Fund capital projects and using other measures from above. More details about these reductions can be found in 2011/12 Budget Document available within the Finance Department's home page (<http://www.ci.watsonville.ca.us/departments/finance/financedept.html>).

As referenced already, California's currently projected \$16.5 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. There are immediate cuts already built into the State's 2011/12 budget that will reduce Library funding for cities should the State fail to meet revenue targets. Additional cuts to public safety can occur depending on the size of the shortfall. In addition to trigger cuts for 2011/12, Governor Jerry Brown may again consider proposals to move services from the State level to the local level and to curtail Redevelopment Agency (RDA) projects and spending.

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. Prior to proposition 22's passage, the State mandated that local Redevelopment Agency's transfer funds to the State during 2009/10 and 2010/11 into the Supplemental Education Revenue Augmentation Fund to offset State costs for schools. Proposition 22 was written to effectively restrict the State's ability to repeat this reallocation of local resources. In order for the State to again reallocate local tax dollars, the State would be required to get two-thirds vote by the legislature and would then also have to repay \$2 billion previously borrowed from local agencies during

2009/10. Furthermore, the State could only perform this action one more time during a 10-year period (through 2019).

However, as referenced, parts of Proposition 22 and State Assembly Bills ABx26 & 27 are under review by the State Supreme Court. ABx26 & 27 were budget bills included in the 2011/12 State budget that would terminate all of California's RDA's and then allow local jurisdictions to continue RDA's after making a payment to the State. The Supreme Court's decision is expected prior to January 15, 2012; when the City would be required to make its "RDA continuation" payment to the State. Officials are monitoring this closely as termination would be swift and would result in increased costs to the City and loss of resources used historically for economic development and affordable housing programs.

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 a new business marketing strategy with new website and logo entitled "Growing Opportunities on California's Monterey Bay". 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, 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 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. The City has received a grant for \$20 million from the United States Department of Interior and will share the remaining costs with the PVWMA. The City has also issued in November 2007 \$27.3 million in water revenue bonds that will be repaid by PVWMA.

Major road reconstruction of two of the City's main roadways will improve the City's transportation infrastructure. The Green Valley Road reconstruction project was completed during 2010/11 and a phase of the Freedom Blvd reconstruction project will be completed during 2011/12.

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, 2010. This was the eleventh 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, 2009. 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 this year. His leadership and dedication to the project, including reformatting the report, is the major contributing factor to the City being rewarded the Certificate of Achievement for the last ten 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: Irene Acosta, Yesenia Alvarez, Lupe Banuelos, Marisa Bermudez, Rex Boyes, Veronica Carrillo, Maria Carranco, Joseph Chavez, Rosie Guerrero, Lety Hernandez, Yvette Herrera, Letty Galvan, Mark Lamoreaux, Kevin Lew, Christine McGrath, Atanas Milkov, Ed Mitchell, Karina Murillo, David Rosenow, Joel Staker 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.

Respectively submitted,

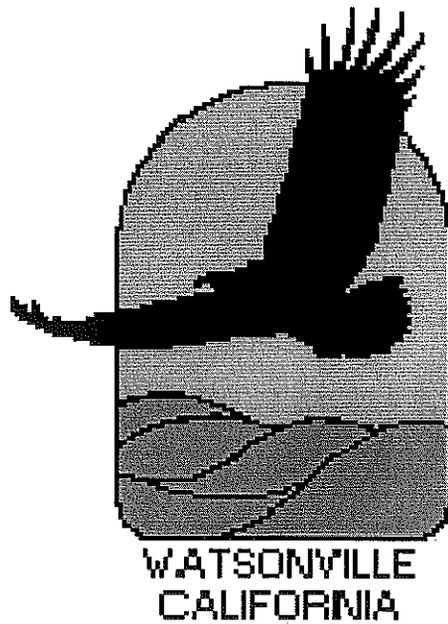


Carlos J. Palacios
City Manager



Marc Pimentel
Administrative Services Director

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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, 2010

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.



Linda C. Dawson

President

Jeffrey R. Enos

Executive Director

City of Watsonville, California

Officers and Officials

For the Fiscal Year Ending June 30, 2011

City Council:

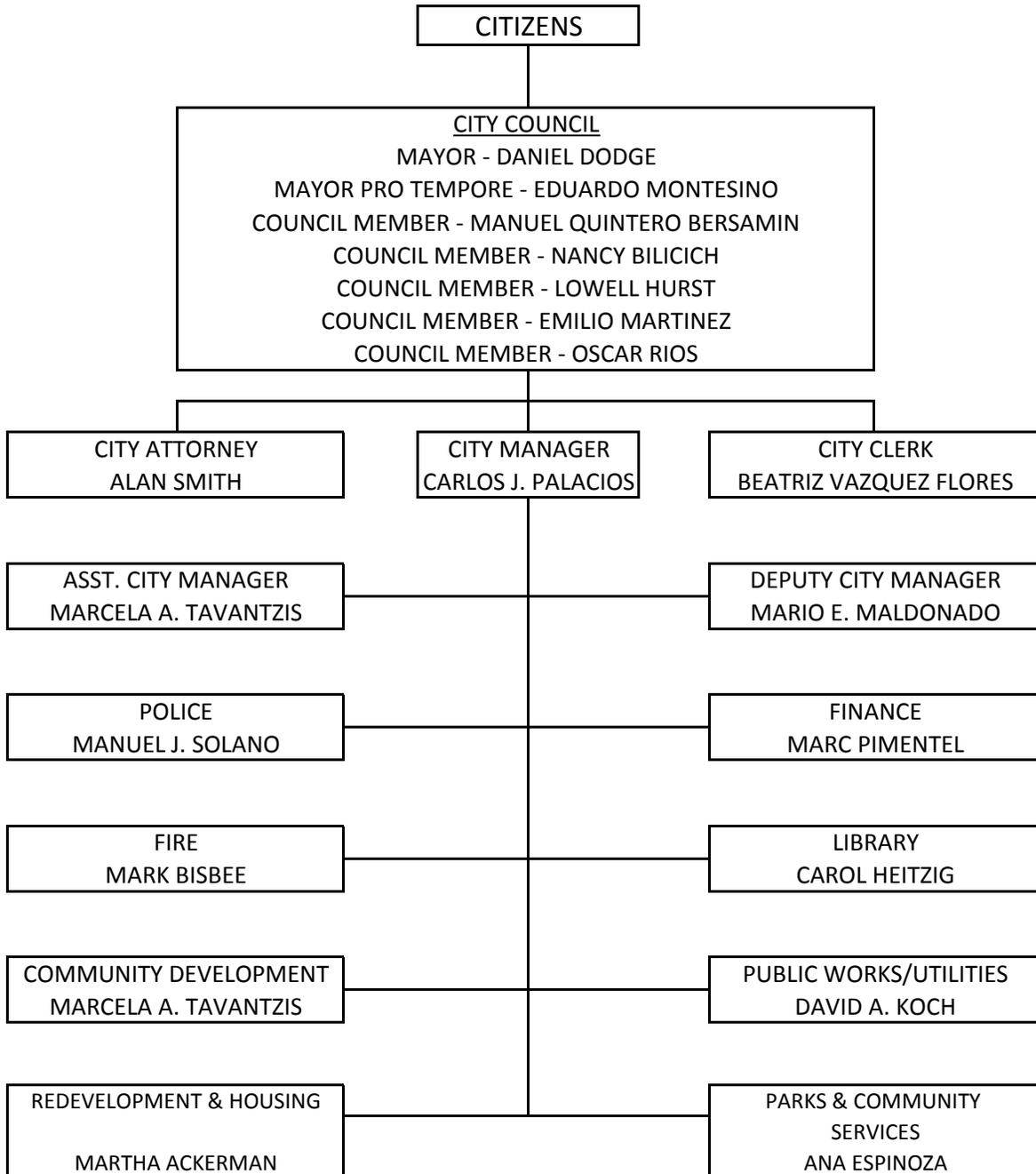
Mayor – Daniel Dodge
Mayor Pro Tempore – Eduardo Montesino
Council Member – Manuel Quintero Bersamin
Council Member – Nancy Bilicich
Council Member – Lowell Hurst
Council Member – Emilio Martinez
Council Member – Oscar Rios

City Officials:

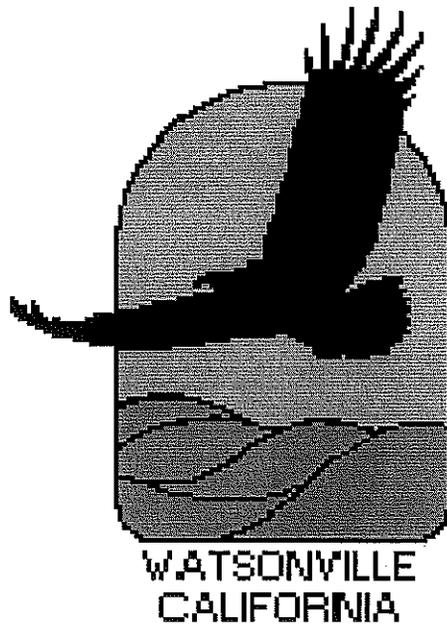
City Manager – Carlos J. Palacios
Assistant City Manager – Marcela A. Tavantzis
Deputy City Manager – Mario E. Maldonado
City Clerk – Beatriz Vazquez Flores
Fire Chief – Mark Bisbee
Police Chief – Manuel J. Solano
Public Works and Utilities Director – David A. Koch
Administrative Services Director –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

WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE FISCAL YEAR 2010 - 2011



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WATSONVILLE
CALIFORNIA

Financial Section

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
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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, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2011, 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, Low Income Housing Set Aside 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.

As discussed in note 5 to basic financial statements effective July 1, 2010, the City of Watsonville adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, statistical section, and the combining and individual fund financial statements and schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Watsonville. The accompanying combining and individual fund financial statements and schedules listed in the table of contents are the responsibility of management and was derived from and relates 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 12, 2011

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, 2011. 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 \$250,348. Of this amount, \$13,897 (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 \$648. Investment in capital assets, net of related debt increased by \$1,538, restricted funds increased by \$18,990 and unrestricted decreased by \$32,660. The major reason for the decrease in unrestricted funds was implementation of GASB 54 that restricts City's special revenue funds net assets.
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balances of \$11,036, a decrease of \$8,733 in comparison with the prior fiscal year's restated balances. The nonspendable portion of the fund balance was \$69, the restricted portion was \$15,077 and the unassigned amount was (\$4,110).

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 intergovernment 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.

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 47 to 88 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 nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 90 to 104 of this report.

Government-wide Financial Analysis

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 \$250,348 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net assets (75%) 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.

City of Watsonville's Net Assets
June 30, 2011
(in thousands)

An additional portion of the City of Watsonville's net assets (20%) represents 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 \$13,897 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.

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|---------|--------------------------|---------|---------|---------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Current and other assets | 50,206 | 55,528 | 47,367 | 54,633 | 97,573 | 110,161 |
| Capital assets | 130,673 | 133,587 | 106,003 | 107,232 | 236,676 | 240,819 |
| Total Assets | 180,879 | 189,115 | 153,370 | 161,865 | 334,249 | 350,980 |
| Long-term liabilities outstanding | 28,636 | 30,218 | 40,553 | 42,784 | 69,189 | 73,002 |
| Other Liabilities | 11,255 | 10,790 | 3,457 | 3,817 | 14,712 | 14,607 |
| Total Liabilities | 39,891 | 41,008 | 44,010 | 46,601 | 83,901 | 87,609 |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 112,462 | 114,050 | 74,569 | 71,443 | 187,031 | 185,493 |
| Restricted | 46,586 | 31,321 | 2,834 | - | 49,420 | 31,321 |
| Unrestricted | (18,060) | 2,736 | 31,957 | 43,821 | 13,897 | 46,557 |
| Total Net Assets | 140,988 | 148,107 | 109,360 | 115,264 | 250,348 | 263,371 |

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, both for the government as a whole as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year.

The government's restated net assets increased by \$648 during the current fiscal year. The government's governmental activities had a decrease in restated net assets of \$356. The government's governmental investment in capital assets net of related debt had a decrease of \$1,588. The major cause of the decrease investment in capital assets net of related debt assets was the annual depreciation that was charged to the governmental assets.

The government's business-type activities restated net assets increased by \$1,004. The increase in business-type activities was from the Sewer and Solid Waste Funds. Most of the increase was from charges for services increase of \$2,554. A portion of the increase was the decreases in debt services costs, as both funds refunded its debt at lower interest rates in the previous year. The Water Fund had a decrease in net assets of \$1,616 which was partially from an increase in depreciation expense as the new water recycling center was depreciated for the first time this fiscal year.

City of Watsonville
Change in Net Assets
For the Fiscal Year Ending June 30, 2011
(in thousands)

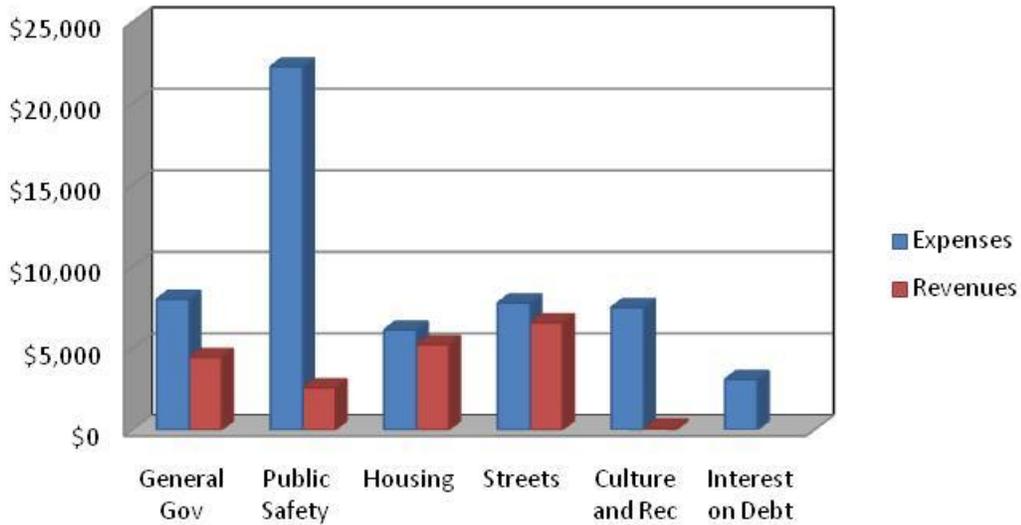
| | Governmental | | Business-type | | Total | |
|------------------------------------|--------------|---------|---------------|---------|----------|---------|
| | Activities | | Activities | | 2011 | 2010 |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | 13,628 | 10,860 | 29,147 | 26,593 | 42,775 | 37,453 |
| Operating grants and contributions | 3,443 | 5,311 | 1,885 | 1,046 | 5,328 | 6,357 |
| Capital grants and contributions | 2,546 | 2,732 | 70 | 2,018 | 2,616 | 4,750 |
| General Revenues | | | | | | |
| Property taxes | 17,380 | 18,082 | - | - | 17,380 | 18,082 |
| Other taxes | 16,523 | 14,579 | - | - | 16,523 | 14,579 |
| Others | 873 | 1,245 | 1,116 | 455 | 1,989 | 1,700 |
| Total Revenues | 54,393 | 52,809 | 32,218 | 30,112 | 86,611 | 82,921 |
| Expenses: | | | | | | |
| General government | 8,010 | 9,100 | - | - | 8,010 | 9,100 |
| Public safety | 22,259 | 22,752 | - | - | 22,259 | 22,752 |
| Housing | 6,118 | 8,734 | - | - | 6,118 | 8,734 |
| Streets | 7,775 | 6,656 | - | - | 7,775 | 6,656 |
| Culture and recreation | 7,498 | 7,393 | - | - | 7,498 | 7,393 |
| Interest on debt | 3,089 | 3,269 | - | - | 3,089 | 3,269 |
| Water | - | - | 11,187 | 11,482 | 11,187 | 11,482 |
| Sewer | - | - | 9,342 | 9,335 | 9,342 | 9,335 |
| Solid waste | - | - | 8,165 | 8,460 | 8,165 | 8,460 |
| Airport | - | - | 2,520 | 2,364 | 2,520 | 2,364 |
| Total Expenses | 54,749 | 57,904 | 31,214 | 31,641 | 85,963 | 89,545 |
| Change in net assets | (356) | (5,095) | 1,004 | (1,529) | 648 | (6,624) |
| Net assets - beginning | 148,107 | 153,773 | 115,264 | 116,966 | 263,371 | 270,739 |
| Prior year adjustments | (6,763) | (571) | (6,908) | (173) | (13,671) | (744) |
| Net assets - beginning restated | 141,344 | 153,202 | 108,356 | 116,793 | 249,700 | 269,995 |
| Net assets ending | 140,988 | 148,107 | 109,360 | 115,264 | 250,348 | 263,371 |

Governmental Activities. Governmental activities decreased the City of Watsonville's restated net assets by \$356, thereby accounting for all the loss in the net assets of the City of Watsonville. Key elements of this decline are as follows:

- Overall governmental revenues increased by \$1,584 during the fiscal year. This increase in revenue was the first increase in several years as the City saw a slight increase in other taxes and charges for services. The governmental revenues still declined in grants and property taxes during the fiscal year.
- Operating grants decreased by \$1,868 during the current fiscal year. A large portion of this decrease was from the decrease in funding from the state for public works projects and library activities.

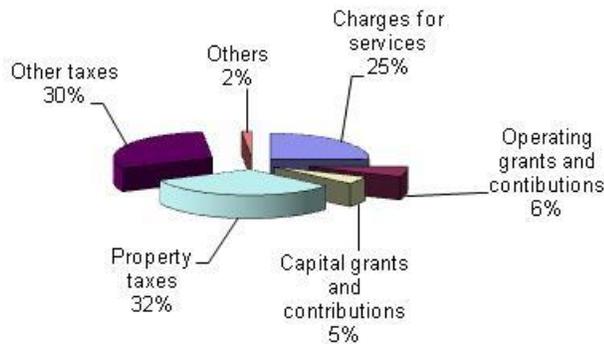
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities



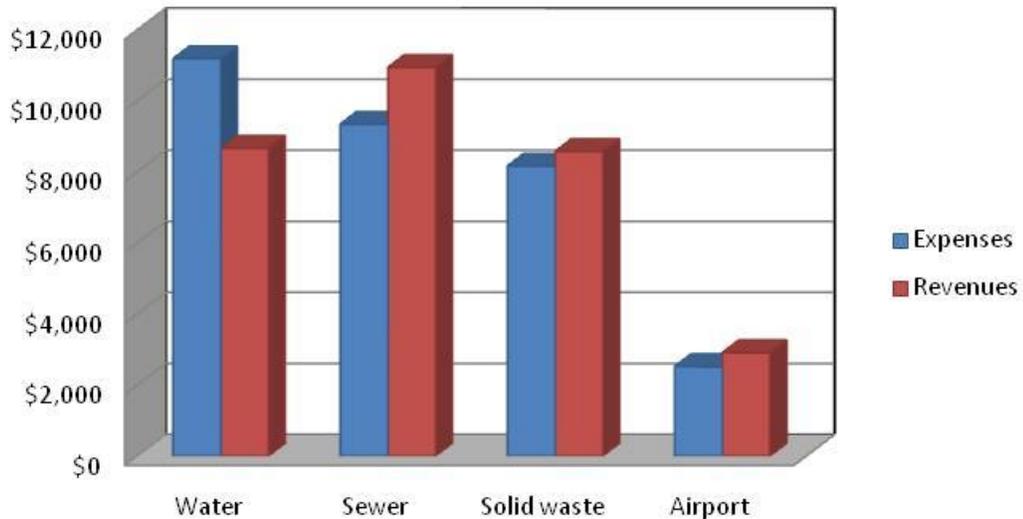
Expenses for general government, housing, and interest on debt decreased during the fiscal year. General government and housing operations decreased due to decreased staffing costs related to salaries. Interest on debt decreased with the decrease in interest and fiscal charges for the City of Watsonville’s 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. Culture and recreation increased due to a new operating grant program within the parks and community services department.

Business-type activities. Business-type activities increased the City of Watsonville’s restated net assets by \$1,004, accounting for the increase in the government’s net assets. Key elements of this increase are as follows:

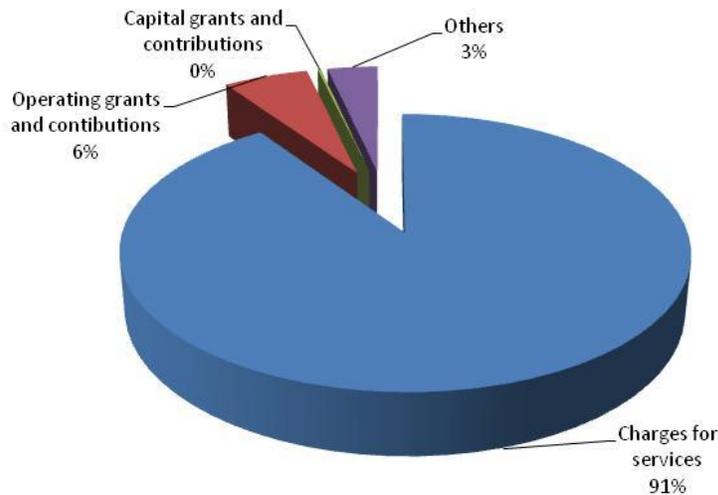
Expenses and Program Revenues

Business-type Activities



- Charges for services for business-type activities increased by 25%. The Sewer Fund had the most significant increase in charges for services. This was due to the first full year of operation the water recycling operation division. This operation is reimbursed for its services by Pajaro Valley Water Management Agency in the amount of approximately of \$1.5 million per year.
- Charges for services also increased for the Solid Waste Fund by 8%. This increase was due to increased service fees implemented at the end of last fiscal year.
- Water Fund charges for services decreased due to the recording a note receivable for the recycled water project that was built by the City for Pajaro Valley Management Agency in the prior fiscal year.
- Airport's charges for services decreased by \$84, due mainly to the increasing cost of fuel in the prior fiscal year and the decreasing of cost of fuel this fiscal year and passing that cost on to customers.
- Operating costs in the Water Fund increased by \$1,499, due mainly to increases in outside fees charged by other agencies and passed through to customers.
- Operating costs in the other enterprise funds closely paralleled inflation and growth in the demand for services during the fiscal year.

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 \$11,036, a decrease of \$8,733 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 debt service in the amount of \$3,064. Most of this balance is in reserve funds held by trustee for the redevelopment agency tax allocation bonds. The remainder of fund balances is either nonspendable or unassigned at year end. The nonspendable 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 \$1,530. 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 3.8 percent of total general fund expenditures, while total fund balance represents 4 percent of the same amount.

The restated fund balance of the City of Watsonville’s General Fund decreased by \$637 during the current fiscal year due to the following key factors:

- The General Fund total revenue collection was \$617 more than expected revenues, with taxes; charges for services and fines experiencing the largest increases (\$1,758, \$230, and \$132 respectively). Taxes were higher due to increase in sales tax revenue.
- Other financing resources were \$5.5 million more than last fiscal year. This was from several notes from the Redevelopment Agency became due during the current fiscal year for reimbursement of costs relating to the development of the City’s Civic Center.

The Impact Fees Fund has a fund balance of \$1,115, an increase of \$1,202 over the prior year’s restated balance. This increase was mainly due to funds collected for past costs in regards to the struve slough bridge project.

Low Income Housing Set Aside Fund has a fund balance of \$3,196, a decrease of \$1,152 for the fiscal year. The decrease was from several large low income housing projects begin funded during the fiscal year.

The Redevelopment and Housing Grants Fund has a negative balance of \$1,291, a decrease of \$413 from the restated beginning fund balance. This decrease 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 \$915, an increase of \$21 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 had a fund balance of \$2,149, a decrease of \$3,351 during the fiscal year. The decrease was due to tax increment revenue being \$1,519 less than expected for the fiscal year and operating transfers out to the Agency’s fund to cover operating costs were \$3,496 more than expected.

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 enterprises funds are as follows:

| | <u>Net Assets</u> | Change in Restated <u>Net Assets</u> |
|-------------|-------------------|--|
| | \$ | \$ |
| Water | 53,129 | (1,616) |
| Sewer | 47,636 | 1,751 |
| Solid Waste | 2,883 | 478 |
| Airport | 5,713 | 392 |

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 current fiscal year. The City increased expenditures for two new part-time firefighters by \$51, \$29 for a new culture and recreation grant, \$200 for work on the City's new general plan and \$10 for a new GASB 45 Actuarial study. The City increased revenues for several transfers in from the Redevelopment Agency for \$995 for several projects and \$200 for a land lease to enterprise funds for use of general fund purchased land. The City also increased transfers in for two notes becoming due during the fiscal year from the Redevelopment Agency by \$5,424. Appropriations were increased in public safety for payoff of 2 PERS side loans for \$6,484.

Taxes were \$1,758 over budget. This increase in tax revenue was due to real estate taxes, special sale tax, personal property and transient occupancy tax all being over budgeted amounts. Intergovernmental revenues were \$1,081 under budget with the loss of several operating grants within public safety and culture and recreation. Charges for services were over budget by \$230, with most of that being municipal services charges 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, 2011 was \$236,676 (net of depreciation). This investment in capital assets included land, buildings and improvement, equipment, infrastructure, and work in progress. The City of Watsonville's investments in capital assets decreased by 1.7 percent from last fiscal year (2.2 percent decrease in governmental assets and 1.1 percent decrease in business-type assets). Major capital asset events during the current fiscal year included the following:

- Purchases of a John Deere 444K Wheel Loader and a Tymco Street Sweeper.
- Completion of the Public Works fish ladder project.

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 62 to 63 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total net debt outstanding of \$69,263. Of this amount, \$55,745 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds) less bond issuance costs of \$1,182, and \$674 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 notes payable of \$1,821, debt payable of \$478, postretirement liability of \$2,341 and \$2,070 for capital leases. Business type activities have \$3,518 in loans, postretirement liability of \$865 and landfill closure/postclosure liability of \$2,859.

The 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 \$1,439 in excess revenues in prior fiscal years. During the current year, the Agency repaid \$24 of the debt and has a note payable to the County of Santa Cruz for \$72. In 2009, the County of Santa Cruz found an overpayment of tax increment in prior years of \$494 to the Redevelopment Agency. During the current year, the Agency repaid \$43 of the debt and has a note payable to the County of Santa Cruz for \$407.

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.

The Redevelopment Agency of the City of Watsonville issued 2004 Tax Allocations bonds 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 and Standard and Poor's Rating Service rated the claims paying ability of the Insurer as AAA. On March 28, 2008, Standard and Poor's Rating Service downgraded their rating for the claims paying ability of the Insurer to BB. On June 20, 2008 Moody's Investors Services downgraded its rating for the claims paying ability of the insurer to B1.

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 65 to 78 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.
- Increased demand on City resources for the development of 500 new homes.
- 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 and Redevelopment Agency do 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 2011/12 fiscal year.

The City also closed down all City services (except of basic health and safety services) for three weeks during the 2011 holiday period to help close the budget gap due to continued declining revenues in the 2011/12 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 2011-12.

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, 2011

| | Primary Government | | Total |
|---|---------------------------|----------------------|--------------------|
| | Governmental | Business-type | |
| | Activities | Activities | |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| ASSETS | | | |
| Cash and investments | 9,445,800 | 9,829,560 | 19,275,360 |
| Cash and investments with fiscal agent | 2,735,700 | 3,034,822 | 5,770,522 |
| Receivables: | | | |
| Interest | 960,909 | 765,456 | 1,726,365 |
| Taxes | 2,894,709 | - | 2,894,709 |
| Assessments | 674,000 | - | 674,000 |
| Accounts | 727,627 | 3,770,294 | 4,497,921 |
| Intergovernmental | 5,142,092 | 57,634 | 5,199,726 |
| Internal balances | (870,280) | 870,280 | - |
| Loans receivable | 27,510,621 | 28,639,977 | 56,150,598 |
| Inventories | 68,954 | 399,334 | 468,288 |
| Deposits | 62,000 | - | 62,000 |
| Land held for resale | 854,280 | - | 854,280 |
| Capital assets (net of depreciation, where applicable) | | | |
| Land | 14,014,625 | 22,663,599 | 36,678,224 |
| Buildings and Improvements | 108,530,108 | 58,832,693 | 167,362,801 |
| Machinery | 3,780,576 | 9,775,514 | 13,556,090 |
| Infrastructure | 3,968,225 | 12,658,475 | 16,626,700 |
| Construction in progress | 378,976 | 2,072,883 | 2,451,859 |
| Total Assets | <u>180,878,922</u> | <u>153,370,521</u> | <u>334,249,443</u> |

See accompanying notes to financial statements

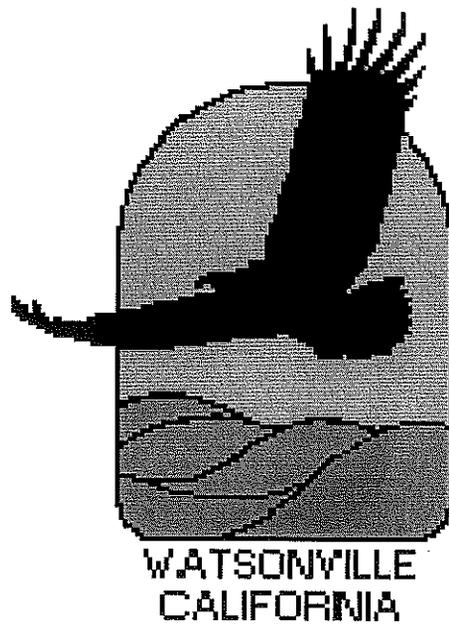
Continued

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|--------------------|
| | Governmental Activities | Business-type Activities | |
| | \$ | \$ | \$ |
| LIABILITIES | | | |
| Accounts payable | 1,148,964 | 1,249,868 | 2,398,832 |
| Accrued personnel costs | 3,614,211 | 1,598,716 | 5,212,927 |
| Insurance claims payable | 4,959,642 | - | 4,959,642 |
| Interest payable | 382,373 | 201,002 | 583,375 |
| Retentions payable | 118,198 | - | 118,198 |
| Unearned revenue | 113,934 | 114,025 | 227,959 |
| Arbitrage rebate | - | 283,907 | 283,907 |
| Deposits | 917,779 | 9,961 | 927,740 |
| Noncurrent liabilities | | | |
| Due within one year | 2,138,668 | 2,082,180 | 4,220,848 |
| Due in more than one year (Net of capitalized discounts and issue costs) | <u>26,497,537</u> | <u>38,470,681</u> | <u>64,968,218</u> |
| Total Liabilities | <u>39,891,306</u> | <u>44,010,340</u> | <u>83,901,646</u> |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | 112,462,462 | 74,569,067 | 187,031,529 |
| Restricted for: | | | |
| Debt service | 2,681,658 | 2,833,820 | 5,515,478 |
| Impact Fees | 3,752,313 | - | 3,752,313 |
| Low Income Housing Set Aside | 14,681,975 | - | 14,681,975 |
| Redevelopment and Housing Grants | 12,034,709 | - | 12,034,709 |
| Other | 13,434,282 | - | 13,434,282 |
| Unrestricted | <u>(18,059,783)</u> | <u>31,957,294</u> | <u>13,897,511</u> |
| Total Net Assets | <u>140,987,616</u> | <u>109,360,181</u> | <u>250,347,797</u> |

See accompanying notes to financial statements

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CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| Functions/Programs | Program Revenues | | | | Primary Government | | |
|----------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary Government: | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | | | | |
| General government | 8,009,779 | 4,176,722 | 270,561 | - | (3,562,496) | - | (3,562,496) |
| Public safety | 22,258,470 | 1,556,329 | 1,021,714 | - | (19,680,427) | - | (19,680,427) |
| Housing | 6,118,099 | 3,612,388 | 1,614,496 | - | (891,215) | - | (891,215) |
| Streets | 7,775,094 | 3,585,714 | 434,738 | 2,546,451 | (1,208,191) | - | (1,208,191) |
| Culture and recreation | 7,498,259 | 696,696 | 101,440 | - | (6,700,123) | - | (6,700,123) |
| Interest on long term debt | 3,089,070 | - | - | - | (3,089,070) | - | (3,089,070) |
| Total government activities | <u>54,748,771</u> | <u>13,627,849</u> | <u>3,442,949</u> | <u>2,546,451</u> | <u>(35,131,522)</u> | <u>-</u> | <u>(35,131,522)</u> |
| Business-type activities | | | | | | | |
| Water | 11,187,330 | 8,513,064 | 70,184 | 85,712 | - | (2,518,370) | (2,518,370) |
| Sewer | 9,342,022 | 10,140,116 | 761,455 | 42,333 | - | 1,601,882 | 1,601,882 |
| Solid Waste | 8,164,516 | 8,520,621 | 57,176 | - | - | 413,281 | 413,281 |
| Airport | 2,519,673 | 1,973,098 | 938,701 | - | - | 392,126 | 392,126 |
| Total business-type activities | <u>31,213,541</u> | <u>29,146,899</u> | <u>1,827,516</u> | <u>128,045</u> | <u>-</u> | <u>(111,081)</u> | <u>(111,081)</u> |
| Total primary government | <u>85,962,312</u> | <u>42,774,748</u> | <u>5,270,465</u> | <u>2,674,496</u> | <u>(35,131,522)</u> | <u>(111,081)</u> | <u>(35,242,603)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | 17,379,882 | - | 17,379,882 |
| Sales taxes | | | | | 10,100,824 | - | 10,100,824 |
| Franchise taxes | | | | | 606,184 | - | 606,184 |
| Motor/vehicle taxes | | | | | 1,802,861 | - | 1,802,861 |
| Utility users taxes | | | | | 2,937,854 | - | 2,937,854 |
| Other taxes | | | | | 1,074,973 | - | 1,074,973 |
| Unrestricted investment earnings | | | | | 873,102 | 1,115,987 | 1,989,089 |
| Total general revenues | | | | | <u>34,775,680</u> | <u>1,115,987</u> | <u>35,891,667</u> |
| Change in net assets | | | | | <u>(355,842)</u> | <u>1,004,906</u> | <u>649,064</u> |
| Net assets - beginning | | | | | 148,106,795 | 115,263,855 | 263,370,650 |
| Prior period adjustments | | | | | <u>(6,763,337)</u> | <u>(6,908,580)</u> | <u>(13,671,917)</u> |
| Net assets - beginning, restated | | | | | <u>141,343,458</u> | <u>108,355,275</u> | <u>249,698,733</u> |
| Net assets - ending | | | | | <u>140,987,616</u> | <u>109,360,181</u> | <u>250,347,797</u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2011

| | SPECIAL REVENUE FUNDS | | | | DEBT SERVICE FUNDS | | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------------|------------------|-----------------------|------------------------------|--------------------|------------------|--------------------------------|--------------------------------|
| | GENERAL | IMPACT FEES | LOW INCOME HOUSING | REDEVELOPMENT AND HOUSING | GENERAL | REDEVELOPMENT | | |
| | | | SET ASIDE | GRANTS | | | | |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| ASSETS: | | | | | | | | |
| Cash and investments | 1,714,477 | 325,493 | 2,221,925 | 15,510 | 114,018 | 3,424 | 4,800,953 | 9,195,800 |
| Cash and investments with fiscal agent | - | - | - | - | 794,882 | 1,940,818 | - | 2,735,700 |
| Receivables: | | | | | | | | |
| Interest | 62,914 | - | 534,931 | 300,121 | - | - | 62,943 | 960,909 |
| Taxes | 2,099,835 | - | - | - | 6,079 | 246,343 | 542,452 | 2,894,709 |
| Deferred assessments | - | - | - | - | 674,000 | - | - | 674,000 |
| Accounts | 525,885 | 10,880 | - | - | - | - | 33,170 | 569,935 |
| Intergovernmental | 392,975 | 2,637,360 | - | 489,198 | - | - | 1,622,559 | 5,142,092 |
| Due from other funds | 7,287,116 | - | - | - | - | - | 1,414,543 | 8,701,659 |
| Advances receivable | - | 871,606 | 250,000 | - | - | - | 1,652,206 | 2,773,812 |
| Loans receivable | 151,096 | - | 10,967,976 | 14,198,825 | - | - | 2,192,724 | 27,510,621 |
| Inventories | 68,954 | - | - | - | - | - | - | 68,954 |
| Land held for resale | - | - | 854,280 | - | - | - | - | 854,280 |
| Total Assets | 12,303,252 | 3,845,339 | 14,829,112 | 15,003,654 | 1,588,979 | 2,190,585 | 12,321,550 | 62,082,471 |
| LIABILITIES AND FUND BALANCES: | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | 520,242 | 89,963 | 2,383 | 11,657 | - | 41,533 | 365,830 | 1,031,608 |
| Accrued personnel costs | 3,378,720 | 3,063 | 3,472 | 13,476 | - | - | 116,534 | 3,515,265 |
| Retentions payable | - | - | - | 5,068 | - | - | 113,130 | 118,198 |
| Due to other funds | - | - | - | 1,366,069 | - | - | 3,300,153 | 4,666,222 |
| Advances payable | 5,360,822 | - | 140,811 | - | - | - | 774,482 | 6,276,115 |
| Deferred revenue | 508,817 | 2,637,360 | 11,485,567 | 14,881,832 | 674,000 | - | 4,220,209 | 34,407,785 |
| Unearned revenue | 94,953 | - | - | 16,171 | - | - | 2,810 | 113,934 |
| Deposits | 841,110 | - | 471 | - | - | - | 76,198 | 917,779 |
| Total Liabilities | 10,704,664 | 2,730,386 | 11,632,704 | 16,294,273 | 674,000 | 41,533 | 8,969,346 | 51,046,906 |
| Fund Balances: | | | | | | | | |
| Nonspendable: | | | | | | | | |
| Inventories | 68,954 | - | - | - | - | - | - | 68,954 |
| Restricted For: | | | | | | | | |
| Debt service | - | - | - | - | 914,979 | 2,149,052 | - | 3,064,031 |
| Impact Fees | - | 1,114,953 | - | - | - | - | - | 1,114,953 |
| Low Income Housing | - | - | 3,196,408 | - | - | - | - | 3,196,408 |
| Gas Tax | - | - | - | - | - | - | 1,853,710 | 1,853,710 |
| Narcotics Assets Seizure | - | - | - | - | - | - | 87,902 | 87,902 |
| Business Development | - | - | - | - | - | - | 180,509 | 180,509 |
| Rental Rehabilitation | - | - | - | - | - | - | 496,390 | 496,390 |
| Library | - | - | - | - | - | - | 2,169,156 | 2,169,156 |
| Parks Development | - | - | - | - | - | - | 937,413 | 937,413 |
| Business Booster Loan Program | - | - | - | - | - | - | 281,022 | 281,022 |
| Inclusionary Housing | - | - | - | - | - | - | 1,694,842 | 1,694,842 |
| Unassigned | 1,529,634 | - | - | (1,290,619) | - | - | (4,348,740) | (4,109,725) |
| Total Fund Balances | 1,598,588 | 1,114,953 | 3,196,408 | (1,290,619) | 914,979 | 2,149,052 | 3,352,204 | 11,035,565 |
| Total Liabilities and Fund Balances | 12,303,252 | 3,845,339 | 14,829,112 | 15,003,654 | 1,588,979 | 2,190,585 | 12,321,550 | 62,082,471 |

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 30,2011

| | <u>\$</u> |
|---|---------------------------|
| Amounts Reported For Governmental Activities To The Statement Of Net Assets Are Different Because: | |
| Fund Balances Of Governmental Funds. (Page 36) | 11,035,565 |
| Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds. | 183,037,523 |
| Accumulated Depreciation Has Not Been Included In The Funds Financial Statements. | (52,365,013) |
| 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. | (6,109,666) |
| Loans, Intergovernmental And Assessment Receivables Recorded As Deferred Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities. | 34,407,785 |
| Long-term Debt Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds. | (29,069,220) |
| Bond Issuance Costs are Expensed In Year Of Issuance Therefore Not Reported In Governmental Funds. | 433,015 |
| Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds. | (382,373) |
| Net Assets Of Governmental Funds. (Page 33) | <u><u>140,987,616</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, 2011

| | SPECIAL REVENUE FUNDS | | | | DEBT SERVICE FUNDS | | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------------|-------------|----------------------|-----------------------|--------------------|---------------|--------------------------------|--------------------------------|
| | GENERAL | IMPACT FEES | LOW INCOME | REDEVELOPMENT | GENERAL | REDEVELOPMENT | | |
| | | | HOUSING SET ASIDE | AND HOUSING GRANTS | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| REVENUES: | | | | | | | | |
| Taxes | 20,120,218 | - | 1,524,535 | - | - | 6,140,373 | 6,117,452 | 33,902,578 |
| Licenses, permits, and fees | 2,508,791 | 255,189 | - | - | - | - | 741,827 | 3,505,807 |
| Intergovernmental | 1,260,231 | 354,292 | - | 1,447,213 | - | - | 1,399,297 | 4,461,033 |
| Charges for services | 5,243,372 | - | - | - | - | - | - | 5,243,372 |
| Fines | 757,463 | - | - | - | - | - | - | 757,463 |
| Interest | 873,103 | 80,446 | 33,190 | - | 34,516 | 31,179 | 74,355 | 1,126,789 |
| Special assessment | - | - | - | - | 111,932 | - | - | 111,932 |
| Miscellaneous | 314,232 | - | 76,459 | - | - | - | 58,452 | 449,143 |
| Total revenues | 31,077,410 | 689,927 | 1,634,184 | 1,447,213 | 146,448 | 6,171,552 | 8,391,383 | 49,558,117 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 5,223,953 | - | - | - | - | - | 1,090,052 | 6,314,005 |
| Public safety | 21,115,443 | - | - | - | - | - | 84,112 | 21,199,555 |
| Housing | - | - | 2,201,331 | 1,507,299 | - | - | 2,211,238 | 5,919,868 |
| Streets | 3,466,555 | 1,165,244 | - | - | - | - | 2,592,931 | 7,224,730 |
| Culture and recreation | 3,681,568 | - | - | - | - | - | 2,316,951 | 5,998,519 |
| Debt service: | | | | | | | | |
| Principal | 6,484,196 | - | - | - | 1,151,219 | 913,247 | - | 8,548,662 |
| Interest and fiscal charges | - | - | - | - | 252,934 | 2,832,636 | - | 3,085,570 |
| Total expenditures | 39,971,715 | 1,165,244 | 2,201,331 | 1,507,299 | 1,404,153 | 3,745,883 | 8,295,284 | 58,290,909 |
| Excess (deficiency) of revenues over (under) expenditures | (8,894,305) | (475,317) | (567,147) | (60,086) | (1,257,705) | 2,425,669 | 96,099 | (8,732,792) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers in | 8,256,955 | 1,793,032 | - | - | 1,278,307 | 585,031 | 6,407,605 | 18,320,930 |
| Transfers out | - | (115,781) | (585,031) | (353,303) | - | (6,361,684) | (10,905,131) | (18,320,930) |
| Total other financing sources (uses) | 8,256,955 | 1,677,251 | (585,031) | (353,303) | 1,278,307 | (5,776,653) | (4,497,526) | - |
| Net change in fund balances | (637,350) | 1,201,934 | (1,152,178) | (413,389) | 20,602 | (3,350,984) | (4,401,427) | (8,732,792) |
| Fund balances, July 1 | 1,896,570 | (86,981) | 4,559,221 | (954,750) | 894,377 | 5,500,036 | 8,239,025 | 20,047,498 |
| Prior period adjustments | 339,368 | - | (210,635) | 77,520 | - | - | (485,394) | (279,141) |
| Fund balances, July 1, as restated | 2,235,938 | (86,981) | 4,348,586 | (877,230) | 894,377 | 5,500,036 | 7,753,631 | 19,768,357 |
| Fund balances, June 30 | 1,598,588 | 1,114,953 | 3,196,408 | (1,290,619) | 914,979 | 2,149,052 | 3,352,204 | 11,035,565 |

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, 2011

| | <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) | (8,732,792) |
| 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. | (2,914,211) |
| Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds. | 4,834,812 |
| 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 Amount Is The Repayment Of Principal. | 8,548,662 |
| This Amount is the Bonds Issuance Costs | (34,489) |
| This Amount of Post Retirement Costs | (448,621) |
| Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds. | (1,640,192) |
| 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>30,989</u> |
| Change In Net Assets Of Governmental Funds. (Page 35) | <u><u>(355,842)</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, 2011

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Taxes | 18,362,000 | 18,362,000 | 20,120,218 | 1,758,218 |
| Licenses, permits, and fees | 2,679,414 | 2,679,414 | 2,508,791 | (170,623) |
| Intergovernmental | 2,340,860 | 2,340,860 | 1,260,231 | (1,080,629) |
| Charges for services | 5,013,383 | 5,013,383 | 5,243,372 | 229,989 |
| Fines | 625,300 | 625,300 | 757,463 | 132,163 |
| Interest | 914,000 | 1,114,000 | 873,103 | (240,897) |
| Miscellaneous | 325,334 | 325,334 | 314,232 | (11,102) |
| Total revenues | 30,260,291 | 30,460,291 | 31,077,410 | 617,119 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 6,762,682 | 6,972,484 | 5,223,953 | 1,748,531 |
| Public safety | 20,193,473 | 20,244,464 | 21,115,443 | (870,979) |
| Streets | 3,733,704 | 3,733,704 | 3,466,555 | 267,149 |
| Culture and recreation | 4,685,204 | 4,713,981 | 3,681,568 | 1,032,413 |
| Debt service: | | | | |
| Principal | - | 6,484,196 | 6,484,196 | - |
| Total expenditures | 35,375,063 | 42,148,829 | 39,971,715 | 2,177,114 |
| Excess (deficiency) of revenues over (under) expenditures | (5,114,772) | (11,688,538) | (8,894,305) | 2,794,233 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 2,749,219 | 8,173,639 | 8,256,955 | 83,316 |
| Total other financing sources (uses) | 2,749,219 | 8,173,639 | 8,256,955 | 83,316 |
| Net change in fund balance | (2,365,553) | (3,514,899) | (637,350) | 2,877,549 |
| Fund balance, July 1 | 1,896,570 | 1,896,570 | 1,896,570 | - |
| Prior period adjustments | - | - | 339,368 | 339,368 |
| Fund balance July 1, as restated | 1,896,570 | 1,896,570 | 2,235,938 | 339,368 |
| Fund balance, June 30 | (468,983) | (1,618,329) | 1,598,588 | 3,216,917 |

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, 2011

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|---------------------------|---------------------------|-------------------------|---|
| | Original | Final | | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Licenses, permits, and fees | 269,000 | 269,000 | 255,189 | (13,811) |
| Intergovernmental | 180,000 | 180,000 | 354,292 | 174,292 |
| Interest | 150,000 | 150,000 | 80,446 | (69,554) |
| Total revenues | <u>599,000</u> | <u>599,000</u> | <u>689,927</u> | <u>90,927</u> |
| EXPENDITURES: | | | | |
| Streets | <u>3,824,721</u> | <u>3,998,721</u> | <u>1,165,244</u> | <u>2,833,477</u> |
| Total expenditures | <u>3,824,721</u> | <u>3,998,721</u> | <u>1,165,244</u> | <u>2,833,477</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(3,225,721)</u> | <u>(3,399,721)</u> | <u>(475,317)</u> | <u>2,924,404</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer In | 1,770,071 | 1,770,071 | 1,793,032 | 22,961 |
| Transfers out | <u>(115,781)</u> | <u>(115,781)</u> | <u>(115,781)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>1,654,290</u> | <u>1,654,290</u> | <u>1,677,251</u> | <u>22,961</u> |
| Net change in fund balance | (1,571,431) | (1,745,431) | 1,201,934 | 2,947,365 |
| Fund balance, July 1 | <u>(86,981)</u> | <u>(86,981)</u> | <u>(86,981)</u> | <u>-</u> |
| Fund balance, June 30 | <u><u>(1,658,412)</u></u> | <u><u>(1,832,412)</u></u> | <u><u>1,114,953</u></u> | <u><u>2,947,365</u></u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
LOW INCOME HOUSING SET ASIDE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|------------------|-------------|-------------|---|
| | Original | Final | | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Taxes | 835,106 | 835,106 | 1,524,535 | 689,429 |
| Interest | 40,000 | 40,000 | 33,190 | (6,810) |
| Miscellaneous | 70,000 | 70,000 | 76,459 | 6,459 |
| Total revenues | 945,106 | 945,106 | 1,634,184 | 689,078 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Housing | 2,531,321 | 2,531,321 | 2,201,331 | 329,990 |
| Total expenditures | 2,531,321 | 2,531,321 | 2,201,331 | 329,990 |
| Excess (deficiency) of revenues over (under) expenditures | (1,586,215) | (1,586,215) | (567,147) | 1,019,068 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | (597,815) | (597,815) | (585,031) | 12,784 |
| Total other financing sources (uses) | (597,815) | (597,815) | (585,031) | 12,784 |
| Net change in fund balance | (2,184,030) | (2,184,030) | (1,152,178) | 1,031,852 |
| Fund balance, July 1 | 4,559,221 | 4,559,221 | 4,559,221 | - |
| Prior period adjustments | - | - | (210,635) | (210,635) |
| Fund balances, July 1, as restated | 4,559,221 | 4,559,221 | 4,348,586 | (210,635) |
| Fund balance, June 30 | 2,375,191 | 2,375,191 | 3,196,408 | 821,217 |

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, 2011

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| REVENUES: | \$ | \$ | \$ | \$ |
| Intergovernmental | 3,171,145 | 3,171,145 | 1,447,213 | (1,723,932) |
| Interest | 1,500 | 1,500 | - | (1,500) |
| Total revenues | <u>3,172,645</u> | <u>3,172,645</u> | <u>1,447,213</u> | <u>(1,725,432)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Housing | <u>3,214,431</u> | <u>3,214,431</u> | <u>1,507,299</u> | <u>1,707,132</u> |
| Total expenditures | <u>3,214,431</u> | <u>3,214,431</u> | <u>1,507,299</u> | <u>1,707,132</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(41,786)</u> | <u>(41,786)</u> | <u>(60,086)</u> | <u>(18,300)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | <u>(353,167)</u> | <u>(347,167)</u> | <u>(353,303)</u> | <u>(6,136)</u> |
| Total other financing sources (uses) | <u>(353,167)</u> | <u>(347,167)</u> | <u>(353,303)</u> | <u>(6,136)</u> |
| Net change in fund balances | <u>(394,953)</u> | <u>(388,953)</u> | <u>(413,389)</u> | <u>(24,436)</u> |
| Fund balance, July 1 | (954,750) | (954,750) | (954,750) | - |
| Prior period adjustments | - | - | 77,520 | 77,520 |
| Fund balances, July 1, as restated | <u>(954,750)</u> | <u>(954,750)</u> | <u>(877,230)</u> | <u>77,520</u> |
| Fund balance, June 30 | <u>(1,349,703)</u> | <u>(1,343,703)</u> | <u>(1,290,619)</u> | <u>53,084</u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Fund |
|---|--|-------------------|-------------------|------------------|--------------------|--|
| | WATER \$ | SEWER \$ | SOLID WASTE \$ | AIRPORT \$ | TOTALS \$ | \$ |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and investments | 1,725,202 | 3,522,697 | 4,580,511 | 1,150 | 9,829,560 | 250,000 |
| Cash and investments with fiscal agent | 2,799,325 | 97,618 | 137,879 | - | 3,034,822 | - |
| Receivables: | | | | | | |
| Interest | 765,456 | - | - | - | 765,456 | - |
| Accounts | 898,831 | 2,021,649 | 745,332 | 104,482 | 3,770,294 | 157,692 |
| Loans | - | 193,626 | - | - | 193,626 | - |
| Intergovernmental | 4,184 | - | 10,700 | 42,750 | 57,634 | - |
| Deposits | - | - | - | - | - | 62,000 |
| Inventories | 292,992 | - | 2,797 | 103,545 | 399,334 | - |
| Total Current Assets | 6,485,990 | 5,835,590 | 5,477,219 | 251,927 | 18,050,726 | 469,692 |
| Noncurrent Assets | | | | | | |
| Advances receivable | 1,344,768 | 910,956 | 1,496,579 | - | 3,752,303 | - |
| Loan receivable | 27,345,000 | 1,101,351 | - | - | 28,446,351 | - |
| Capital assets: | | | | | | |
| Land and improvements | 5,698,697 | 8,943,006 | 438,000 | 7,583,896 | 22,663,599 | - |
| Buildings | 37,373,757 | 29,417,748 | 4,107,495 | 8,791,900 | 79,690,900 | - |
| Machinery and equipment | 7,381,094 | 3,559,381 | 5,570,289 | 298,749 | 16,809,513 | - |
| Infrastructure | 12,867,724 | 38,032,387 | 1,019,969 | 1,941,125 | 53,861,205 | - |
| Construction in progress | 1,933,371 | 139,512 | - | - | 2,072,883 | - |
| Accumulated depreciation | (16,537,862) | (36,218,272) | (7,433,658) | (8,905,144) | (69,094,936) | - |
| Total Capital Assets (Net of accumulated depreciation) | 48,716,781 | 43,873,762 | 3,702,095 | 9,710,526 | 106,003,164 | - |
| Total Noncurrent Assets | 77,406,549 | 45,886,069 | 5,198,674 | 9,710,526 | 138,201,818 | - |
| Total Assets | 83,892,539 | 51,721,659 | 10,675,893 | 9,962,453 | 156,252,544 | 469,692 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | 562,411 | 480,432 | 89,228 | 117,797 | 1,249,868 | 117,356 |
| Accrued personnel costs | 316,141 | 767,524 | 426,471 | 88,580 | 1,598,716 | 98,946 |
| Insurance claims payable | - | - | - | - | - | 4,959,642 |
| Interest payable | 167,325 | 12,603 | 21,074 | - | 201,002 | - |
| Unearned revenue | - | - | - | 114,025 | 114,025 | - |
| Due to other funds | - | - | - | 2,882,023 | 2,882,023 | 1,153,414 |
| Due to other governments | 283,907 | - | - | - | 283,907 | - |
| Customer deposits | 9,961 | - | - | - | 9,961 | - |
| Current maturities of long term debt: | | | | | | |
| Liability for landfill closure | - | - | 59,500 | - | 59,500 | - |
| City of Watsonville Loan | 539,639 | - | - | 372,165 | 911,804 | - |
| Revenue Bonds | - | 470,486 | 640,390 | - | 1,110,876 | - |
| Total Current Liabilities | 1,879,384 | 1,731,045 | 1,236,663 | 3,574,590 | 8,421,682 | 6,329,358 |
| Noncurrent Liabilities: | | | | | | |
| Advance payable | - | - | - | - | - | 250,000 |
| Post retirement | 215,472 | 305,054 | 288,087 | 56,593 | 865,206 | - |
| Liability for landfill closure | - | - | 2,799,175 | - | 2,799,175 | - |
| City of Watsonville Loan | 1,987,896 | - | - | 618,594 | 2,606,490 | - |
| Revenue bonds payable (Net of capitalized discounts and issue costs) | 26,680,462 | 2,049,971 | 3,469,377 | - | 32,199,810 | - |
| Total Noncurrent Liabilities | 28,883,830 | 2,355,025 | 6,556,639 | 675,187 | 38,470,681 | 250,000 |
| Total Liabilities | 30,763,214 | 4,086,070 | 7,793,302 | 4,249,777 | 46,892,363 | 6,579,358 |
| Net Assets | | | | | | |
| Investment in capital assets (Net of related debt) | 24,296,005 | 41,450,923 | (269,793) | 9,091,932 | 74,569,067 | - |
| Restricted | | | | | | |
| Debt service | 2,632,000 | 85,015 | 116,805 | - | 2,833,820 | - |
| Unrestricted (Deficits) | 26,201,320 | 6,099,651 | 3,035,579 | (3,379,256) | 31,957,294 | (6,109,666) |
| Total Net Assets | 53,129,325 | 47,635,589 | 2,882,591 | 5,712,676 | 109,360,181 | (6,109,666) |

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, 2011

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Fund |
|--|--|------------|-------------|-----------|-------------|--|
| | WATER | SEWER | SOLID WASTE | AIRPORT | TOTALS | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| OPERATING REVENUES: | | | | | | |
| Charges for services | 8,513,064 | 10,140,116 | 8,520,621 | 1,973,098 | 29,146,899 | 7,735,033 |
| Total Operating Revenue | 8,513,064 | 10,140,116 | 8,520,621 | 1,973,098 | 29,146,899 | 7,735,033 |
| OPERATING EXPENSES: | | | | | | |
| Costs of sales and services | 7,740,205 | 7,836,734 | 7,095,028 | 2,193,445 | 24,865,412 | 9,375,225 |
| Depreciation | 1,520,269 | 1,375,029 | 669,745 | 217,516 | 3,782,559 | - |
| Total Operating Expenses | 9,260,474 | 9,211,763 | 7,764,773 | 2,410,961 | 28,647,971 | 9,375,225 |
| Operating Income (Loss) | (747,410) | 928,353 | 755,848 | (437,863) | 498,928 | (1,640,192) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Lease revenue | - | - | - | 423,527 | 423,527 | - |
| Grant revenue | 70,184 | 761,455 | 57,176 | 515,174 | 1,403,989 | - |
| Interest revenue | 902,094 | 148,726 | 65,167 | - | 1,115,987 | - |
| Interest expense | (1,333,290) | (125,873) | (204,803) | (108,712) | (1,772,678) | - |
| Miscellaneous expenses | (449,127) | - | - | - | (449,127) | - |
| Landfill usage | - | - | (188,729) | - | (188,729) | - |
| Amortization | (144,439) | (4,386) | (6,211) | - | (155,036) | - |
| Total Nonoperating Revenues (expenses) | (954,578) | 779,922 | (277,400) | 829,989 | 377,933 | - |
| Income Before Contributions | | | | | | |
| Capital contributions - Connection fees | 85,712 | 42,333 | - | - | 128,045 | - |
| Changes in Net Assets | (1,616,276) | 1,750,608 | 478,448 | 392,126 | 1,004,906 | (1,640,192) |
| Total Net Assets - Beginning | 61,620,879 | 45,911,460 | 2,409,260 | 5,322,256 | 115,263,855 | (4,469,474) |
| Prior period adjustments | (6,875,278) | (26,479) | (5,117) | (1,706) | (6,908,580) | - |
| Total Net Assets - Beginning, as restated | 54,745,601 | 45,884,981 | 2,404,143 | 5,320,550 | 108,355,275 | (4,469,474) |
| Total Net Assets - Ending | 53,129,325 | 47,635,589 | 2,882,591 | 5,712,676 | 109,360,181 | (6,109,666) |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service |
|--|--|--------------------|--------------------|------------------|--------------------|--|
| | WATER | SEWER | SOLID WASTE | AIRPORT | TOTALS | Fund |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Receipts from customers and users | 11,631,996 | 10,063,821 | 8,434,760 | 2,081,977 | 32,212,554 | - |
| Receipts from interfund services provided | - | - | - | - | - | 7,624,084 |
| Payments to suppliers | (5,652,616) | (4,963,671) | (5,316,466) | (2,078,285) | (18,011,038) | (8,358,618) |
| Payments to employees | (2,644,398) | (4,080,247) | (2,589,649) | (415,666) | (9,729,960) | - |
| Payment for interfund services used | (157,293) | (45,694) | (630,397) | (8,697) | (842,081) | - |
| Net cash provided by operating activities | <u>3,177,689</u> | <u>974,209</u> | <u>(101,752)</u> | <u>(420,671)</u> | <u>3,629,475</u> | <u>(734,534)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Grant revenue | 70,184 | 761,455 | 46,476 | 515,174 | 1,393,289 | - |
| Non operating expenses | (449,127) | - | (91,457) | - | (540,584) | - |
| Net cash provided (used) by noncapital financing activities | <u>(378,943)</u> | <u>761,455</u> | <u>(44,981)</u> | <u>515,174</u> | <u>852,705</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Acquisition of capital assets | (1,128,079) | (1,000,636) | (423,814) | - | (2,552,529) | - |
| Proceeds from debt | 3,084,944 | - | - | 1,141,750 | 4,226,694 | - |
| Connection fees | 85,712 | 42,333 | - | - | 128,045 | - |
| Principal paid on long term debt | (4,272,409) | (451,774) | (614,591) | (1,551,068) | (6,889,842) | - |
| Interest paid on long term debt | (1,333,290) | (121,040) | (196,290) | (108,712) | (1,759,332) | - |
| Net cash provided (used) by capital and related financing activities | <u>(3,563,122)</u> | <u>(1,531,117)</u> | <u>(1,234,695)</u> | <u>(518,030)</u> | <u>(6,846,964)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Lease revenue | - | - | - | 423,527 | 423,527 | - |
| Interest received | 119,990 | 148,726 | 65,167 | - | 333,883 | - |
| Net cash provided (used) by investment activities | <u>119,990</u> | <u>148,726</u> | <u>65,167</u> | <u>423,527</u> | <u>757,410</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(644,386)</u> | <u>353,273</u> | <u>(1,316,261)</u> | <u>-</u> | <u>(1,607,374)</u> | <u>(734,534)</u> |
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>5,168,913</u> | <u>3,267,042</u> | <u>6,034,651</u> | <u>1,150</u> | <u>14,471,756</u> | <u>984,534</u> |
| CASH AND CASH EQUIVALENTS, JUNE 30 | <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> |
| Reconciliation of Statement of Net Assets: | | | | | | |
| Cash and investments | 1,725,202 | 3,522,697 | 4,580,511 | 1,150 | 9,829,560 | 250,000 |
| Cash and investments with fiscal agent | 2,799,325 | 97,618 | 137,879 | - | 3,034,822 | - |
| | <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> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating Income | (747,410) | 928,353 | 755,848 | (437,863) | 498,928 | (1,640,192) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 1,520,269 | 1,375,029 | 669,745 | 217,516 | 3,782,559 | - |
| (Increase) decrease in receivables | (163,256) | (434,794) | (85,861) | 2,201 | (681,710) | (110,949) |
| (Increase) decrease in inventories | (21,966) | - | (2,434) | (66,854) | (91,254) | - |
| (Increase) decrease in loans receivable | - | 358,499 | - | - | 358,499 | - |
| (Increase) decrease in due from other funds | 3,214,240 | - | - | - | 3,214,240 | 1,153,414 |
| (Increase) decrease in due from other governments | (4,184) | - | - | 96,836 | 92,652 | - |
| (Increase) decrease in advance receivable | (568,581) | (910,956) | - | - | (1,479,537) | - |
| Increase (decrease) in accounts payable | (62,744) | (399,244) | (1,531,063) | (12,527) | (2,005,578) | (211,813) |
| Increase (decrease) in retentions payable | (60,039) | (88,987) | - | - | (149,026) | - |
| Increase (decrease) in claims payable | - | - | - | - | - | 91,472 |
| Increase (decrease) in deferred revenue | - | - | - | 111,080 | 111,080 | - |
| Increase (decrease) in accrued personnel costs | 26,192 | 82,617 | 38,936 | 16,025 | 163,770 | (16,466) |
| Increase (decrease) in customer deposits | 1,190 | - | - | - | 1,190 | - |
| Increase (decrease) in post retirement | 43,978 | 63,692 | 53,077 | 12,132 | 172,879 | - |
| Increase (decrease) in due to other funds | - | - | - | (359,217) | (359,217) | - |
| Total adjustments | <u>3,925,099</u> | <u>45,856</u> | <u>(857,600)</u> | <u>17,192</u> | <u>3,130,547</u> | <u>905,658</u> |
| Net cash provided (used) by operating activities | <u>3,177,689</u> | <u>974,209</u> | <u>(101,752)</u> | <u>(420,671)</u> | <u>3,629,475</u> | <u>(734,534)</u> |
| NONCASH INVESTING ACTIVITIES: | | | | | | |
| Landfill postclosure liability amortization | - | - | \$128,809 | - | \$128,809 | - |
| Landfill usage | - | - | 59,920 | - | 59,920 | - |
| Capitalized discounts and issue costs | <u>\$144,439</u> | <u>\$4,386</u> | <u>6,211</u> | <u>-</u> | <u>155,036</u> | <u>-</u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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).

Complete financial statements for the Redevelopment Agency of the City of Watsonville as an individual component unit may be obtained at the entity's administrative offices as follows:

Redevelopment Agency of the City of Watsonville
250 Main Street
Watsonville, CA 95076

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, 2011 (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 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.

Impact Fees Fund: The government incurs certain increased costs as development occurs. To mitigate the costs of development, a fee is assessed at the time of development. 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 Low Income Housing Fund is used to hold twenty percent of the Agency's tax increment for low and moderate-income housing projects.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (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.

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

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, wastewater 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.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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, 2011 (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, 2011 (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, 2011 (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 timing of payments for accrued vested vacation and sick leave time benefits is not certain. The City considers its compensated absences to be current. The General fund, Redevelopment fund, Internal Service 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, 2011 (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) \$183,037,523 differences are as follows:

Capital Assets:

| | |
|----------------------------|--------------|
| Land | \$14,014,625 |
| Buildings and improvements | 132,194,205 |
| Machinery and equipment | 10,803,899 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | |
|--------------------------|----------------------|
| Infrastructure | 25,645,818 |
| Construction in progress | <u>378,976</u> |
| Total | <u>\$183,037,523</u> |

The details of 2) (\$29,069,220) differences are as follows:

| | |
|--------------------------------------|-----------------------|
| Long-term Debt: | |
| Debt payable to County of Santa Cruz | (\$478,277) |
| Redevelopment tax allocation bonds | (21,685,000) |
| Capital leases | (2,070,049) |
| Sec 108 loan | (1,821,000) |
| Postretirement | (2,340,894) |
| Special assessment bonds | <u>(674,000)</u> |
| Total | <u>(\$29,069,220)</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 (\$2,914,211) difference are as follows:

| | |
|--|----------------------|
| Capital outlay | \$1,877,297 |
| Depreciation expense | <u>(4,791,508)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u>(\$2,914,211)</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 for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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 \$289,570. The fund's revenues were also increased by \$1,195,190. During the year, two Council approved notes became due to the City of Watsonville from the Redevelopment Agency. The City's revenues were increased by \$4,429,230. The City also increased the impact fee appropriations by \$174,000 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, 2011, expenditures exceeded appropriations in the business development fund by \$24,411, the measure E sales tax fund by \$593,015, and the retirement fund by \$4,255. The business development and measure E funds had excess fund balance to cover these costs. The redevelopment funds will be covered by funds held in its debt service fund. The retirement fund will be reimbursed by future retirement tax collections.

C. Deficit fund equity

The special revenue funds had the following deficit fund balances: redevelopment and housing grant fund \$1,290,619 retirement fund \$698,013, redevelopment fund \$2,735,904, parking garage fund of \$862,698, and abandoned vehicle fund of \$52,125. The internal service fund had a deficit net assets of \$6,109,666 as of June 30, 2011. 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, 2011, consisted of the following:

| | |
|--|---------------------|
| Total Pooled Deposits and Investments | \$19,275,360 |
| Cash and Investments with Fiscal Agent | <u>5,770,522</u> |
| Total Cash and Investments | <u>\$25,045,882</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 restricted cash.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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, 2011 were as follows:

| | | |
|---------------------------------|------------------|---------------------|
| <u>Cash</u> | | |
| Demand Deposits | \$ 4,789,227 | |
| Outstanding Checks | (2,198,365) | |
| Deposits in Transit | <u>312,205</u> | |
| Net Demand Deposits | 2,903,067 | |
| Petty Cash | <u>9,919</u> | |
| Cash Subtotal | | 2,912,986 |
| <u>Investments</u> | | |
| Assessment Bonds | 674,022 | |
| U.S. Government Securities | 6,519,905 | |
| Mutual Funds: | | |
| Money Market | 1,506,145 | |
| Guaranteed Investment Contracts | 5,337,112 | |
| City Enterprise Loans | 3,508,293 | |
| Local Agency Investment Fund | <u>4,587,419</u> | |
| Investment Subtotal | | <u>22,132,896</u> |
| Total Cash and Investments | | <u>\$25,045,882</u> |

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

| | |
|----------------------------------|---------------------|
| Governmental Funds: | |
| General | \$1,714,477 |
| Impact Fees | 325,493 |
| Low Income Housing Set-Aside | 2,221,925 |
| Redevelopment and Housing Grants | 15,510 |
| General Debt Service | 908,900 |
| Redevelopment Debt Service | 1,944,242 |
| Other Non-major Funds | <u>4,800,953</u> |
| Total Governmental Funds | <u>11,931,500</u> |
| Business-type Activities: | |
| Water | 4,524,527 |
| Sewer | 3,620,315 |
| Solid waste | 4,718,390 |
| Airport | <u>1,150</u> |
| Total Business-type Activities | <u>12,864,382</u> |
| <u>Governmental Activities</u> | |
| Internal Service Fund | <u>250,000</u> |
| Total Governmental Activities | <u>250,000</u> |
| Total Government Cash | <u>\$25,045,882</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (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, 2011, the government carrying amount of deposits and cash on hand was \$2,912,986 and bank balances was \$4,789,227. 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, 2011 (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> |
| Federal Agency Securities | \$ 6,519,905 | \$ - | \$ - | \$ 6,519,905 | \$ - |
| State Investment Pool | 4,587,419 | 4,587,419 | - | - | - |
| Debt of City of Watsonville | 4,182,315 | - | - | 3,508,293 | 674,022 |
| Money Market | 1,506,145 | 1,506,145 | - | - | - |
| Guaranteed Inv. Contracts | <u>5,337,112</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,337,112</u> |
| Total | <u>\$22,132,896</u> | <u>\$6,093,564</u> | <u>\$ -</u> | <u>\$10,028,198</u> | <u>\$6,011,134</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> |
| Federal Agency Securities | \$ 6,519,905 | N/A | \$ - | 6,519,905 | |
| State Investment Pool | 4,587,419 | N/A | | | 4,587,419 |
| Debt of City of Watsonville | 4,182,315 | N/A | | | 4,182,315 |
| Money Market | 1,506,145 | N/A | | | 1,506,145 |
| Guaranteed Inv. Contracts | 5,337,112 | N/A | | 5,337,112 | |
| Total | <u>\$22,132,896</u> | | <u>\$ -</u> | <u>\$11,857,017</u> | <u>\$10,275,879</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, 2011 the amortized cost value of the pool was \$66,352,783,817 and the estimated fair value of the pool was \$66,489,270,508. 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.

B. Receivables

Receivables as of the fiscal year end for major governmental activities and business-type activities in the aggregate are as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | <u>General</u> | Impact <u>Fees</u> | Low Income Housing <u>Set Aside</u> | <u>Redevelopment</u> |
|------------------------|------------------|-----------------------|---|----------------------|
| Governmental | | | | |
| Activities: | \$ | \$ | \$ | \$ |
| Receivables: | | | | |
| Interest | 62,914 | - | 534,931 | 300,121 |
| Taxes | 2,099,835 | - | - | - |
| Accounts | 525,885 | 10,880 | - | - |
| Intergovernmental | <u>392,975</u> | <u>2,637,360</u> | <u>-</u> | <u>489,198</u> |
| Total governmental | | | | |
| activities receivables | <u>3,081,609</u> | <u>2,648,240</u> | <u>534,931</u> | <u>789,319</u> |

| <u>(Continued)</u> | <u>General</u> <u>Debt Service</u> | <u>Debt Service</u> <u>Redevelopment</u> | <u>Nonmajor</u> <u>Funds</u> |
|------------------------|---------------------------------------|---|---------------------------------|
| Governmental | | | |
| Activities: | \$ | \$ | \$ |
| Receivables: | | | |
| Interest | - | - | 62,943 |
| Taxes | 6,079 | 246,343 | 542,452 |
| Deferred | | | |
| Assessments | 674,000 | - | - |
| Accounts | - | - | 33,170 |
| Intergovernmental | <u>-</u> | <u>-</u> | <u>1,622,559</u> |
| Total governmental | | | |
| Activities receivables | <u>680,079</u> | <u>246,343</u> | <u>2,261,124</u> |

| Business-type Activities: | <u>Water</u> | <u>Sewer</u> | <u>Solid</u> <u>Waste</u> | <u>Airport</u> | <u>Internal</u> <u>Service</u> |
|---------------------------|------------------|------------------|------------------------------|----------------|-----------------------------------|
| Receivables: | \$ | \$ | \$ | \$ | \$ |
| Interest | 765,465 | - | - | - | - |
| Accounts | 898,831 | 2,021,649 | 745,332 | 104,482 | 157,692 |
| Loans | | 193,626 | | | |
| Intergovernmental | <u>4,184</u> | <u>-</u> | <u>10,700</u> | <u>42,750</u> | <u>-</u> |
| Total business-type | | | | | |
| activities receivables | <u>1,668,480</u> | <u>2,215,275</u> | <u>756,032</u> | <u>147,232</u> | <u>157,692</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, 2011 (Continued)

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|--------------------|-----------------|
| | \$ | \$ |
| Special assessments not yet due (debt service) | 674,000 | - |
| Grant funds received but not earned | - | 113,934 |
| Grants draw downs prior to meeting all eligibility requirements: | | |
| general fund | 357,721 | - |
| special revenue funds | 5,829,443 | - |
| Loans/interest receivables prior to meeting all eligibility requirements: | | |
| general fund | 151,096 | - |
| special revenue funds | <u>27,395,525</u> | <u>-</u> |
| Total deferred revenue | <u>34,407,785</u> | <u>113,934</u> |

Loans Receivable

Loans receivable at June 30, 2011 are summarized as follows:

General Fund:

| | | |
|----------------------|----------------|-----------|
| Barbara Schutter | \$3,750 | |
| County of Santa Cruz | 24,487 | |
| Evergreen Apartments | <u>122,859</u> | \$151,096 |

Low Income 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 | 2,580,389 | |
| First Time Home Buyers | 866,619 | |
| Sunny Meadows | 1,125,000 | |
| Watsonville Pacific Associates | 1,200,000 | |
| Rental Rehab Loans | <u>950,902</u> | 10,967,976 |

Redevelopment and Housing Funds:

| | | |
|-------------------------------|---------------|------------|
| Rental Rehab Loans | 3,949,786 | |
| Monarch Disabled Housing | 100,279 | |
| South County Land Corporation | 2,573,000 | |
| First Time Home Buyers | 7,545,760 | |
| Down Payment Assistant Loans | <u>30,000</u> | 14,198,825 |

| | | |
|--------------------------|-------------------|---------------------|
| Other Governmental Funds | <u>2,192,724</u> | <u>2,192,724</u> |
| Total | <u>27,510,621</u> | <u>\$27,510,621</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2011 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>201,023</u> | <u>177,953</u> | <u>-</u> | <u>378,976</u> |
| Total capital assets, not being depreciated | <u>14,215,648</u> | <u>177,953</u> | <u>-</u> | <u>14,393,601</u> |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 131,162,327 | 1,031,878 | - | 132,194,205 |
| Machinery and equipment | 10,628,291 | 398,437 | (222,829) | 10,803,899 |
| Infrastructure | <u>25,153,960</u> | <u>491,858</u> | <u>-</u> | <u>25,645,818</u> |
| Total capital assets being depreciated | <u>166,944,578</u> | <u>1,922,173</u> | <u>(222,829)</u> | <u>168,643,922</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (31,848,548) | (2,536,752) | - | (34,385,300) |
| Machinery and equipment | (6,830,612) | (575,479) | - | (7,406,091) |
| Infrastructure | <u>(8,894,345)</u> | <u>(1,679,277)</u> | <u>-</u> | <u>(10,573,622)</u> |
| Total accumulated depreciation | <u>(47,573,505)</u> | <u>(4,791,508)</u> | <u>-</u> | <u>(52,365,013)</u> |
| Total capital assets, Being depreciated, net | <u>119,371,073</u> | <u>(2,869,335)</u> | <u>(222,829)</u> | <u>116,278,909</u> |
| Governmental activities capital assets, net | <u>133,586,721</u> | <u>(2,691,382)</u> | <u>(222,829)</u> | <u>130,672,510</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>1,847,832</u> | <u>484,680</u> | <u>(259,629)</u> | <u>2,072,883</u> |
| Total capital assets, not being depreciated | <u>24,511,431</u> | <u>484,680</u> | <u>(259,629)</u> | <u>24,736,482</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

Capital assets, being depreciated:

| | | | | |
|--|--------------------|------------------|------------------|--------------------|
| Building and improvements | 79,685,312 | 5,589 | - | 79,690,901 |
| Machinery and equipment | 14,632,624 | 2,542,311 | (365,422) | 16,809,513 |
| Infrastructure | <u>53,853,705</u> | <u>7,500</u> | <u>-</u> | <u>53,861,205</u> |
| Total capital assets being depreciated | <u>148,171,641</u> | <u>2,555,400</u> | <u>(365,422)</u> | <u>150,361,619</u> |

Less accumulated depreciation for:

| | | | | |
|--|---------------------|--------------------|------------------|---------------------|
| Building and improvements | (17,072,660) | (1,768,470) | 34,990 | (18,806,140) |
| Machinery and equipment | (6,171,503) | (966,444) | 103,948 | (7,033,999) |
| Infrastructure | <u>(42,207,152)</u> | <u>(1,047,645)</u> | <u>-</u> | <u>(43,254,797)</u> |
| Total accumulated depreciation | <u>(65,451,315)</u> | <u>(3,782,559)</u> | <u>138,938</u> | <u>(69,094,936)</u> |
| Total capital assets, being depreciated, net | <u>82,720,326</u> | <u>(1,227,160)</u> | <u>(226,484)</u> | <u>81,266,682</u> |
| Business-type activities capital assets, net | <u>107,231,757</u> | <u>(742,480)</u> | <u>(486,113)</u> | <u>106,003,164</u> |

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

| | |
|---|--------------------|
| Government activities: | |
| General government | \$1,682,453 |
| Public safety | 987,901 |
| Highways and streets | 609,614 |
| Culture and recreation | <u>1,511,540</u> |
| Total depreciation expense - governmental activities | <u>\$4,791,508</u> |
| Business-type activities: | |
| Water | \$1,520,269 |
| Sewer | 1,375,029 |
| Solid Waste | 669,745 |
| Airport | <u>217,516</u> |
| Total depreciation expense - business-type activities | <u>\$3,782,559</u> |

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2011, 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, 2011 (Continued)

after the end of the fiscal year. Due from/to other funds balances at June 30, 2011 were as follows:

| | <u>Due from</u> <u>other funds</u> | \$ | <u>Due to</u> <u>other funds</u> | \$ |
|-------------------------------|---------------------------------------|----|-------------------------------------|----|
| Governmental Funds: | | | | |
| General | 7,287,116 | | - | |
| Redevelopment & Housing | - | | 1,366,069 | |
| Nonmajor Funds | <u>1,414,543</u> | | <u>3,300,153</u> | |
| Total Governmental Funds | <u>8,701,659</u> | | <u>4,666,222</u> | |
| Internal Service Fund: | | | | |
| Internal Service Fund | <u>-</u> | | <u>1,153,414</u> | |
| Business-type Fund: | | | | |
| Enterprise Fund: | | | | |
| Airport | <u>-</u> | | <u>2,882,023</u> | |
| Total Business-type Funds | <u>-</u> | | <u>4,035,437</u> | |
| Total government | <u>8,701,659</u> | | <u>8,701,659</u> | |

The General fund covered the current cash non housing funds and a portion of the Airport fund, which will be paid back in the next fiscal year. The Affordable housing fund covered the cash shortfall of other non major special revenue housing funds. The Water fund covered most of the cash deficit of the Airport fund.

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, 2010 were as follows:

| | <u>Advances</u> <u>receivable</u> | \$ | <u>Advances</u> <u>payable</u> | \$ |
|-------------------------------|--------------------------------------|----|-----------------------------------|----|
| Governmental Funds: | | | | |
| General | - | | 5,360,822 | |
| Impact Fees | 871,606 | | - | |
| Low Income Housing Set Aside | 250,000 | | 140,811 | |
| Nonmajor Funds | <u>1,652,206</u> | | <u>774,482</u> | |
| Total Governmental Funds | <u>2,773,812</u> | | <u>6,276,115</u> | |
| Business-type Fund: | | | | |
| Enterprise Funds: | | | | |
| Water | 1,344,768 | | - | |
| Sewer | 910,956 | | - | |
| Solid Waste | 1,496,579 | | - | |
| Internal Service Fund: | | | | |
| Internal Service Fund | <u>-</u> | | <u>250,000</u> | |
| | <u>3,752,303</u> | | <u>250,000</u> | |
| Total government | <u>6,526,115</u> | | <u>6,526,115</u> | |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

The General Fund, Impact Fee Fund and other nonmajor funds are owed deferred impact fees from the Redevelopment Agencies Funds and the Water Fund advanced the Agency Funds to pay back the County of Santa Cruz for overpayment of tax increment in prior years.

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 Fees | 69,860 | - | - | - | 45,921 | 115,781 |
| Low Income Housing Set Aside | - | - | - | 585,031 | - | 585,031 |
| Redevelopment-Housing | 120,996 | - | 232,307 | - | - | 353,303 |
| Redevelopment Debt Service | - | - | - | - | 6,361,684 | 6,361,684 |
| Non-major Funds | <u>8,066,099</u> | <u>1,793,032</u> | <u>1,046,000</u> | <u>-</u> | <u>-</u> | <u>10,905,131</u> |
| Total Transfers Out | <u>8,256,955</u> | <u>1,793,032</u> | <u>1,278,307</u> | <u>585,031</u> | <u>6,407,605</u> | <u>18,320,930</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 \$76,531 for the fiscal year ended June 30, 2011. The future minimum lease payments as of June 30, 2011, are as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Amount</u> \$ |
|--|---------------------|
| 2012 | 55,268 |
| 2013 | 55,465 |
| 2014 | 55,554 |
| 2015 | 54,653 |
| 2016 | 55,463 |
| 2017 | 55,228 |
| 2018 | 54,885 |
| 2019 | 55,316 |
| 2020 | 54,703 |
| 2021 | 54,864 |
| 2022 | 54,863 |
| 2023 | 54,700 |
| 2024 | <u>55,257</u> |
| | <u>716,219</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (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> \$ |
|-----------------------|------------------------|-----------------------|---------------------------|
| 2012 | 372,165 | 30,882 | 403,047 |
| 2013 | 386,402 | 16,645 | 403,047 |
| 2014 | <u>232,192</u> | <u>2,919</u> | <u>235,111</u> |
| Total | <u>990,759</u> | <u>50,446</u> | <u>1,041,205</u> |

During the 2010-11 fiscal year, the City of Watsonville refunded the 1998 Water Revenue Bonds as follows:

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> \$ |
|-----------------------|------------------------|-----------------------|---------------------------|
| 2012 | 539,639 | 77,350 | 616,989 |
| 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>2,527,535</u> | <u>197,499</u> | <u>2,725,034</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

Capital leases

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> | \$ | \$ | \$ |
| 2012 | 965,000 | 78,800 | 1,043,800 |
| 2013 | <u>1,005,000</u> | <u>40,200</u> | <u>1,045,200</u> |
| Total | <u>1,970,000</u> | <u>119,000</u> | <u>2,089,000</u> |

On March 1, 2006, the government entered into a lease agreement, with the option to purchase, with Kansas Bank of Manhattan to finance a portion of the costs of building two new fire engines, which started in November of 2006. The total amount for which the government was obligated under the lease was \$179,792 with an interest rate of 5.049%. The purchase option amount as of June 30, 2011 was \$82,937. Delivery of the fire engines occurred during the 2007/08 fiscal year.

| Maturity Date | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| <u>January 16,</u> | \$ | \$ | \$ |
| 2012 | 18,089 | 5,051 | 23,140 |
| 2013 | 19,002 | 4,138 | 23,140 |
| 2014 | 19,961 | 3,179 | 23,140 |
| 2015 | 20,968 | 2,172 | 23,140 |
| 2016 | <u>22,029</u> | <u>1,111</u> | <u>23,140</u> |
| Total | <u>100,049</u> | <u>15,651</u> | <u>115,700</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, 2011.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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.

Revenue bonds payable at June 30, 2011 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% | 2,555,548 |
| \$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>4,159,458</u> |
| Total Revenue Bonds | <u>34,060,006</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> | \$ | \$ | \$ |
| 2012 | | 1,294,059 | 1,294,059 |
| 2013 | | 1,294,059 | 1,294,059 |
| 2014 | | 1,294,059 | 1,294,059 |
| 2015 | | 1,294,059 | 1,294,059 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | |
|-------|-------------------|-------------------|-------------------|
| 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 |
| 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>23,059,345</u> | <u>50,404,345</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> \$ |
|------------------------------|------------------------|-----------------------|---------------------------|
| 2012 | 470,486 | 100,004 | 570,490 |
| 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>2,555,548</u> | <u>296,902</u> | <u>2,852,450</u> |

2009 Solid Waste Revenue Refunding Bonds

| <u>Fiscal</u> <u>Year</u> | <u>Principal</u> \$ | <u>Interest</u> \$ | <u>Debt Service</u> \$ |
|------------------------------|------------------------|-----------------------|---------------------------|
| 2012 | 640,390 | 167,215 | 807,605 |
| 2013 | 667,272 | 140,333 | 807,605 |
| 2014 | 695,283 | 112,322 | 807,605 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | |
|-------|------------------|----------------|------------------|
| 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>4,159,458</u> | <u>607,587</u> | <u>4,767,045</u> |

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> | \$ | \$ | \$ |
| 2011 | 600,000 | 741,698 | 1,341,698 |
| 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 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | |
|--------|-------------------|------------------|-------------------|
| 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>16,140,000</u> | <u>8,878,810</u> | <u>25,018,810</u> |

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

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> | \$ | \$ | \$ |
| 2011 | 95,000 | 80,771 | 175,771 |
| 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>1,815,000</u> | <u>663,716</u> | <u>2,478,716</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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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> | \$ | \$ | \$ |
| 2011 | 185,000 | 216,955 | 401,955 |
| 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 |
| 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>3,730,000</u> | <u>1,809,633</u> | <u>5,539,633</u> |

- * Principal applied to a sinking fund in years 2015 to 2019.
- ** Principal applied to a sinking fund in years 2020 to 2024.

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, 2011 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%. | \$ 14,000 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | |
|---|----------------|
| \$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%. | 19,000 |
| \$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%. | 21,000 |
| \$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%. | 53,000 |
| \$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%. | 47,000 |
| \$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%. | 24,000 |
| \$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%. | 441,000 |
| \$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>55,000</u> |
| Total limited obligation bonds payable at June 30, 2011 | <u>674,000</u> |

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2011 are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2012 | 99,000 | 41,881 | 140,881 |
| 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 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | |
|-------|----------------|----------------|----------------|
| 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>674,000</u> | <u>181,424</u> | <u>855,424</u> |

The 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 Agency repaid \$23,836 of the debt and the note has a balance of \$71,513 at June 30, 2011. The loan has a 0% imputed interest rate.

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2012 | 23,836 |
| 2013 | 23,836 |
| 2014 | <u>23,841</u> |
| Total | <u>71,513</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> |
|--------------------|------------------|
| | \$ |
| 2012 | 45,743 |
| 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>406,764</u> |

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%.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2011 is as follows:

| Maturity Date | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|------------------|------------------|-----------------|---------------------|
| <u>August 1</u> | \$ | \$ | \$ |
| 2011 | 107,000 | 99,205 | 206,205 |
| 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 |
| 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>1,821,000</u> | <u>802,931</u> | <u>2,623,931</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 \$1,219,985.

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, 2011, the new landfill cell had used 75.6% of its projected space. The estimated closure and post-closure costs were \$1,452,364 and \$1,219,985. The estimated remaining closure and postclosure costs are \$354,633 and \$297,892, which will be recognized as the remaining capacity is used (estimated to be 7.4 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 \$1,097,731 and post-closure costs of \$922,094 for the open phase III cell for a total of \$2,798,755. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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, 2011, twenty retired employees participated in this program.

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 first. During fiscal year 2010-2011, expenditures of \$193,000 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 2010-2011, the City's annual OPEB cost (expense) of \$849,100 was equal to the ARC plus NOO interest less an NOO amortization as follows:

| | |
|---------------------------------------|------------------|
| Annual Required Contribution = ARC | \$849,100 |
| Interest on Beginning of the year NOO | 84,000 |
| Amortization | (134,000) |
| Benefit Payments | <u>(177,600)</u> |
| Net Change in OPEB | <u>\$621,500</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2010-2011, 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, 2009 | \$1,407,900 | 8.8% | \$1,284,500 |
| June 30, 2010 | \$1,438,000 | 9.6% | \$2,584,600 |
| June 30, 2011 | \$849,100 | 26.8% | \$3,206,100 |

Funded Status and Funding Progress

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 4.5 percent. 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.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

services.

Changes in long-term debt

Long-term debt activity for the fiscal year ended June 30, 2011, was as follows:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Prior Period</u> <u>Adjustment</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Due Within</u> <u>One Year</u> |
|--|------------------------------------|------------------|--|--------------------|---------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Governmental type activities: | | | | | | |
| Bonds payable: | | | | | | |
| Tax allocation bonds | 22,530,000 | - | - | (845,000) | 21,685,000 | 880,000 |
| Special assessment debt with government commitment | <u>773,000</u> | <u>-</u> | <u>-</u> | <u>(99,000)</u> | <u>674,000</u> | <u>99,000</u> |
| Total bonds payable | 23,303,000 | - | - | (944,000) | 22,359,000 | 979,000 |
| Capital leases | 3,017,268 | - | - | (947,219) | 2,070,048 | 983,089 |
| Debt payable | 546,524 | - | - | (68,247) | 478,277 | 69,579 |
| Postretirement liability | 1,892,273 | 568,851 | - | (120,230) | 2,340,894 | - |
| PERS Liability | - | - | 6,484,196 | (6,484,196) | - | - |
| Note payable | <u>1,926,000</u> | <u>-</u> | <u>-</u> | <u>(105,000)</u> | <u>1,821,000</u> | <u>107,000</u> |
| Governmental activity Long-term liabilities | <u>30,685,065</u> | <u>568,851</u> | <u>6,484,196</u> | <u>(8,668,892)</u> | <u>29,069,220</u> | <u>2,138,668</u> |
| Less: Bond Issuance costs | | | | <u>(433,015)</u> | | |
| Net Long-term Debt | | | | <u>28,636,205</u> | | |

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------|------------------------------------|------------------|-------------------|---------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Business-type activities: | | | | | |
| Bonds Payable: | | | | | |
| Revenue bonds | 38,841,371 | - | (4,781,365) | 34,060,006 | 1,110,876 |
| Less deferred amounts: | | | | | |
| For issuance discounts | <u>(904,357)</u> | <u>-</u> | <u>155,037</u> | <u>(749,320)</u> | <u>-</u> |
| Total bonds payable | 37,937,014 | - | (4,626,328) | 33,310,686 | 1,110,876 |
| Capital leases | 1,400,077 | - | (1,400,077) | - | |
| City loan | - | 4,226,694 | (708,400) | 3,518,294 | 911,804 |
| Postretirement liability | 692,327 | 230,249 | (57,370) | 865,206 | - |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | | | |
|----------------------------------|-------------------|------------------|--------------------|-------------------|------------------|
| Landfill closure/ postclosure | <u>2,754,850</u> | <u>103,825</u> | <u> -</u> | <u>2,858,675</u> | <u>59,500</u> |
| Business-type activity | | | | | |
| Long-term liabilities` | <u>42,784,268</u> | <u>4,560,768</u> | <u>(6,792,175)</u> | <u>40,552,861</u> | <u>2,082,180</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, 2011 were as follows:

| | General Fund | Impact Fee Fund | Low Income Housing Set Aside Fund | Other Governmental Funds | Total |
|-------------|-----------------|-----------------------|---|--------------------------------|--------|
| | \$ | \$ | \$ | \$ | \$ |
| Inventories | 68,954 | - | - | - | 68,954 |

Reserved for Inventories - This reserve is to restrict fund balance, so that it will not be considered as current funds available.

V. Other information

A. Arbitrage liability

Arbitrage involves the simultaneous purchase and sale of the same or essentially the same securities with the object of making a profit on the spread between two markets. In the context of governmental finance, arbitrage describes the strategy of issuing tax-exempt debt and investing the proceeds in debt securities that have a higher rate of return; however, state and local governments are subject to rules and regulations established by the Internal Revenue Code and the U.S. Treasury that under certain conditions create an arbitrage rebate to be paid to the federal government.

B. 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 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 \$520,053 in the current fiscal year and \$125,635 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.

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, 2011 totaled \$4,959,642 as follows: Health Benefits

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

\$1,144,357; General Liability \$490,801; and Workers' Compensation \$3,324,484.

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

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

| | <u>2009/10</u> | <u>2010/11</u> |
|-----------------------------------|--------------------|--------------------|
| Claims incurred but not reported: | \$ | \$ |
| Beginning | 1,067,105 | 1,056,877 |
| Incurred claims | 4,663,172 | 5,601,943 |
| Claims paid | <u>(4,673,400)</u> | <u>(5,023,662)</u> |
| Ending | <u>1,056,877</u> | <u>1,635,158</u> |
| Claims payable: | | |
| Beginning | 5,725,146 | 3,811,293 |
| Incurred claims | 3,719,649 | 6,859,613 |
| Claims paid | <u>(5,633,502)</u> | <u>(7,346,422)</u> |
| Ending | <u>3,811,293</u> | <u>3,324,484</u> |

C. 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.

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, 2011, total estimated claims payable for General Liability were \$402,700.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

D. 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.

Combined districts

Beginning July 1, 1992, the Westside and Downtown Redevelopment Project areas have been combined and expanded. This merging of districts was made possible under certain legislation passed after the Loma Prieta Earthquake.

With the merged project areas, the life of the Redevelopment Agency was extended 40 years to 2032. All activities, including the payment of previous project area debt, will now be combined in the future.

Contingency

Proposition 218, which was approved by the voters in November 1996, will regulate 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* case does not apply to its general law application in the cited case.

E. Post-employment health care benefits

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

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 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.

F. 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, 2011, 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 2010) | | |
| Police | 27.183% | |
| Fire | 26.905% | |
| Miscellaneous | | 9.116% |

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, 2011 (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

not have a pension obligation since it pays these actuarially required contributions monthly.

Annual pension cost:

For 2011, the city's annual pension cost for Miscellaneous employees was \$1,467,925, Police employees was \$1,820,417 and Fire employees was \$949,516.

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> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| | \$ | % | \$ |
| 6/30/09 | 1,693,029 | 100 | 0 |
| 6/30/10 | 1,503,591 | 100 | 0 |
| 6/30/11 | 1,467,925 | 100 | 0 |

Police Safety Plan

| | | | |
|---------|-----------|-----|---|
| 6/30/09 | 1,635,220 | 100 | 0 |
| 6/30/10 | 1,779,754 | 100 | 0 |
| 6/30/11 | 1,820,417 | 100 | 0 |

Fire Safety Plan

| | | | |
|---------|---------|-----|---|
| 6/30/09 | 959,669 | 100 | 0 |
| 6/30/10 | 970,173 | 100 | 0 |
| 6/30/11 | 949,516 | 100 | 0 |

SCHEDULE OF FUNDING PROGRESS FOR PERS (\$Amount is thousands)

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (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 | 71,094 | 6,241 | 91.9% | 18,224 | 34.2% |
| 6/30/09 | 85,966 | 54,302 | 31,664 | 63.2% | 17,674 | 179.2% |
| 6/30/10 | 90,116 | 61,516 | 28,600 | 68.3% | 18,161 | 157.0% |

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.

G. 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, 2011 for government wide governmental activities, governmental activities and business-type activities. The adjustments were as follows:

| | Beginning Balance \$ | Additions \$ | Decreases \$ | Beginning Balance Restated \$ |
|---------------------------------|------------------------------------|------------------------|------------------------|---|
| Government Wide: | | | | |
| Governmental | 148,106,795 | 84,660 | (6,847,997) | 141,343,458 |
| Business-type | 115,263,855 | - | (6,908,580) | 108,355,275 |
| Governmental Funds: | | | | |
| General Fund | 1,896,570 | 499,337 | (189,468) | (2,235,938) |
| Low Income Housing Set Aside | 4,559,221 | 17,340 | (227,975) | 4,348,586 |
| Redevelopment and Housing | | | | |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

| | | | | |
|----------------------------------|------------|--------|-------------|------------|
| Grants | (954,750) | 77,520 | - | (877,230) |
| Other Governmental Funds | 8,239,025 | 7,140 | (492,534) | 7,753,631 |
| Business-type Activities: | | | | |
| Water | 61,620,879 | - | (6,875,278) | 54,745,601 |
| Sewer | 45,911,460 | - | (26,479) | 45,884,981 |
| Solid Waste | 2,409,260 | - | (5,117) | 2,404,143 |
| Airport | 5,322,256 | - | (1,706) | 5,320,550 |

Following are detailed explanations of prior period adjustments:

Government Wide –

Governmental Activities:

1. Adjustments were made to correct prior year's receivables (\$363,801).
2. Adjustments were made to correct prior years PERS debt (\$6,484,196).
3. Adjustments were made to increase interest accrual \$84,660.

Business-type Activities:

1. An adjustment was made to correct advance receivable (\$24,316).
2. Adjustments were made to correct prior year expenditures (\$38,563).
3. An adjustment was made to correct over accrual of revenue (\$6,845,701).

Governmental Funds:

General Fund:

1. Adjustments were made to correct prior year's accounts receivables (\$189,468).
2. An adjustment was made to correct prior year cost allocation \$468,289.
3. Adjustments were made to correct prior year expenditures \$31,048.

Low Income Housing Set Aside Fund:

1. An adjustment was made to correct prior year cost allocation (\$227,975).
2. An adjustment was made to correct prior year receivables \$17,340.

Redevelopment and Housing Grants Fund:

1. An adjustment was made to increase interest accrual \$77,520.

Other Governmental Funds:

1. An adjustment was made to increase interest accrual \$7,140.
2. Adjustments were made to correct prior year's receivables (\$191,673).
3. Adjustments were made to correct prior year expenditures (\$60,547).
4. Adjustments were made to correct prior year cost allocations (\$240,314).

Business-type Activities:

Water Fund:

1. An adjustment was made to correct advance receivable (\$24,316).
2. Adjustments were made to correct prior year expenditures (\$5,261).
3. An adjustment was made to correct over accrual of revenue (\$6,845,701).

Sewer Fund:

1. Adjustments were made to correct prior year expenditures (\$26,479).

Solid Waste Fund:

1. Adjustments were made to correct prior year expenditures (\$5,117).

Airport Fund:

1. Adjustments were made to correct prior year expenditures (\$1,706).

H. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

For the fiscal year ended June 30, 2011. The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of the Statement and the impact on the City's financial statements are explained in Note 9 Fund Balance.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011. The City implemented Governmental Accounting Standards Board (GASB) Statement No. 59 "Financial Instruments Omnibus." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB Statement No 59 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2011.

I. Subsequent Events

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Watsonville intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by state legislature.

Assembly Bill X1 26 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 Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 (Continued)

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.” A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (“EOPS”) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (“EOPS”) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABXI 26.

On August 23, 2011, City Ordinance No. 11-6.1(a) was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills XI 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$3,145,505 with on half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$740,658 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increase amount would be due to schools if any “new debt” is incurred. Assembly Bill X1 27 allows a one-year reprieve on the Agency’s obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABXI 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event, that Assembly Bills XI 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature’s stated intent to eliminate California redevelopment agencies and to reduce their funding.

City of Watsonville, California
Nonmajor Governmental Funds
Special Revenue Funds
(Continued)

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.

Measure E Sales Tax

Due to the 1989 Earthquake, the voters of Santa Cruz County in November of 1990 authorized a special 1/2 cent sales tax override beginning April of 1991. The sales tax override is to be used to repair earthquake damage and assist in economic recovery. This override sunseted in 1997.

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.

City of Watsonville, California
Nonmajor Governmental Funds
Special Revenue Funds
(Concluded)

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.

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

| | Special Revenue Funds | | | | | | |
|--|-----------------------|--------------------------|----------------------|-----------------------|------------------|---------------------|-------------------|
| | GAS TAX | NARCOTICS ASSETS SEIZURE | BUSINESS DEVELOPMENT | RENTAL REHABILITATION | LIBRARY | MEASURE E SALES TAX | PARKS DEVELOPMENT |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS: | | | | | | | |
| Cash and investments | 1,329,787 | 164,250 | 180,499 | 496,390 | 1,292,747 | - | 724,997 |
| Receivables: | | | | | | | |
| Interest | - | - | - | 18,970 | - | - | - |
| Taxes | 157,170 | - | - | - | 267,553 | - | 7,947 |
| Accounts Intergovernmental | 1,622,559 | - | 1,455 | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - |
| Advances receivable | 825,802 | - | - | - | 615,425 | - | 210,979 |
| Loans receivable | - | - | - | 67,877 | 80,586 | - | - |
| Total Assets | 3,935,318 | 164,250 | 181,954 | 583,237 | 2,256,311 | - | 943,923 |
| LIABILITIES AND FUND BALANCES: | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 339,992 | 150 | - | - | 6,569 | - | 294 |
| Accrued personnel costs | 5,927 | - | - | - | - | - | 6,216 |
| Retentions payable | 113,130 | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | - |
| Advances payable | - | - | - | - | - | - | - |
| Deferred revenue | 1,622,559 | - | - | 86,847 | 80,586 | - | - |
| Unearned revenue | - | - | 1,445 | - | - | - | - |
| Deposits | - | 76,198 | - | - | - | - | - |
| Total Liabilities | 2,081,608 | 76,348 | 1,445 | 86,847 | 87,155 | - | 6,510 |
| Fund Balances: | | | | | | | |
| Restricted For: | | | | | | | |
| Gas Tax | 1,853,710 | - | - | - | - | - | - |
| Narcotics Assets Seizure | - | 87,902 | - | - | - | - | - |
| Business Development | - | - | 180,509 | - | - | - | - |
| Rental Rehabilitation | - | - | - | 496,390 | - | - | - |
| Library | - | - | - | - | 2,169,156 | - | - |
| Parks Development | - | - | - | - | - | - | 937,413 |
| Business Booster Loan Program | - | - | - | - | - | - | - |
| Inclusionary Housing | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - |
| Total Fund Balances | 1,853,710 | 87,902 | 180,509 | 496,390 | 2,169,156 | - | 937,413 |
| Total Liabilities and Fund Balances | 3,935,318 | 164,250 | 181,954 | 583,237 | 2,256,311 | - | 943,923 |

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

| | Special Revenue Funds | | | | | | |
|--|-----------------------|--------------------|-------------------|-------------------------------------|----------------------|-------------------------|-------------------|
| | RETIREMENT TAX | REDEVELOPMENT | PARKING GARAGE | BUSINESS BOOSTER LOAN PROGRAM | ABANDONED VEHICLE | INCLUSIONARY HOUSING | TOTAL |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS: | | | | | | | |
| Cash and investments | - | - | 400 | 281,022 | - | 330,861 | 4,800,953 |
| Receivables: | | | | | | | |
| Interest | - | 9,929 | - | - | - | 34,044 | 62,943 |
| Taxes | 97,187 | - | - | - | 12,595 | - | 542,452 |
| Accounts | - | 18,838 | 5,714 | - | 7,163 | - | 33,170 |
| Intergovernmental | - | - | - | - | - | - | 1,622,559 |
| Due from other funds | - | - | - | - | - | 1,414,543 | 1,414,543 |
| Advances receivable | - | - | - | - | - | - | 1,652,206 |
| Loans receivable | - | 410,423 | - | - | - | 1,633,838 | 2,192,724 |
| Total Assets | 97,187 | 439,190 | 6,114 | 281,022 | 19,758 | 3,413,286 | 12,321,550 |
| LIABILITIES AND FUND BALANCES: | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | - | 10,590 | 8,235 | - | - | - | 365,830 |
| Accrued personnel costs | - | 94,044 | 4,745 | - | - | 5,602 | 116,534 |
| Retentions payable | - | - | - | - | - | - | 113,130 |
| Due to other funds | 795,200 | 1,577,238 | 855,832 | - | 71,883 | - | 3,300,153 |
| Advances payable | - | 774,482 | - | - | - | - | 774,482 |
| Deferred revenue | - | 717,375 | - | - | - | 1,712,842 | 4,220,209 |
| Unearned revenue | - | 1,365 | - | - | - | - | 2,810 |
| Deposits | - | - | - | - | - | - | 76,198 |
| Total Liabilities | 795,200 | 3,175,094 | 868,812 | - | 71,883 | 1,718,444 | 8,969,346 |
| Fund Balances: | | | | | | | |
| Restricted For: | | | | | | | |
| Gas Tax | - | - | - | - | - | - | 1,853,710 |
| Narcotics Assets Seizure | - | - | - | - | - | - | 87,902 |
| Business Development | - | - | - | - | - | - | 180,509 |
| Rental Rehabilitation | - | - | - | - | - | - | 496,390 |
| Library | - | - | - | - | - | - | 2,169,156 |
| Parks Development | - | - | - | - | - | - | 937,413 |
| Business Booster Loan Program | - | - | - | 281,022 | - | - | 281,022 |
| Inclusionary Housing | - | - | - | - | - | 1,694,842 | 1,694,842 |
| Unassigned | (698,013) | (2,735,904) | (862,698) | - | (52,125) | - | (4,348,740) |
| Total Fund Balances | (698,013) | (2,735,904) | (862,698) | 281,022 | (52,125) | 1,694,842 | 3,352,204 |
| Total Liabilities and Fund Balances | 97,187 | 439,190 | 6,114 | 281,022 | 19,758 | 3,413,286 | 12,321,550 |

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, 2011

| | Special Revenue Funds | | | | | | |
|---|-------------------------|--------------------------------|-------------------------|-------------------------------|-------------------------|------------------------|-----------------------|
| | GAS TAX | NARCOTICS ASSETS SEIZURE | BUSINESS DEVELOPMENT | RENTAL REHABILI- TATION | LIBRARY | MEASURE E SALES TAX | PARKS DEVELOPMENT |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | |
| Taxes | 1,435,211 | - | - | - | 2,692,677 | - | - |
| Licenses, permits and fees | - | - | 62,574 | 2,842 | 55,194 | - | 264,340 |
| Intergovernmental | 1,330,928 | - | - | - | 68,369 | - | - |
| Interest | 35,732 | - | - | - | 26,629 | - | 8,934 |
| Miscellaneous | - | 9,917 | - | - | 2,980 | - | - |
| Total revenues | <u>2,801,871</u> | <u>9,917</u> | <u>62,574</u> | <u>2,842</u> | <u>2,845,849</u> | <u>-</u> | <u>273,274</u> |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | 97,456 | 2,000 | - | 646,952 | 79,454 |
| Public Safety | - | - | - | - | - | - | - |
| Housing | - | - | - | - | - | - | - |
| Streets | 2,521,319 | 71,612 | - | - | - | - | - |
| Culture and recreation | - | - | - | - | 2,316,951 | - | - |
| Total expenditures | <u>2,521,319</u> | <u>71,612</u> | <u>97,456</u> | <u>2,000</u> | <u>2,316,951</u> | <u>646,952</u> | <u>79,454</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>280,552</u> | <u>(61,695)</u> | <u>(34,882)</u> | <u>842</u> | <u>528,898</u> | <u>(646,952)</u> | <u>193,820</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Transfers in | - | - | - | - | - | - | 45,921 |
| Transfers out | <u>(2,259,231)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,046,000)</u> | <u>-</u> | <u>(175,039)</u> |
| Total other financing sources (uses) | <u>(2,259,231)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,046,000)</u> | <u>-</u> | <u>(129,118)</u> |
| Net change in fund balances | <u>(1,978,679)</u> | <u>(61,695)</u> | <u>(34,882)</u> | <u>842</u> | <u>(517,102)</u> | <u>(646,952)</u> | <u>64,702</u> |
| Fund balances, July 1 | 3,755,389 | 149,597 | 215,391 | 495,548 | 2,693,794 | 646,952 | 872,711 |
| Prior period adjustments | 77,000 | - | - | - | (7,536) | - | - |
| Fund balances, July 1, as restated | <u>3,832,389</u> | <u>149,597</u> | <u>215,391</u> | <u>495,548</u> | <u>2,686,258</u> | <u>646,952</u> | <u>872,711</u> |
| Fund balances, June 30 | <u><u>1,853,710</u></u> | <u><u>87,902</u></u> | <u><u>180,509</u></u> | <u><u>496,390</u></u> | <u><u>2,169,156</u></u> | <u><u>-</u></u> | <u><u>937,413</u></u> |

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, 2011

| | Special Revenue Funds | | | | | | |
|--|-----------------------|--------------------|-------------------|-------------------------------------|----------------------|-------------------------|---------------------|
| | RETIREMENT TAX | REDEVELOPMENT | PARKING GARAGE | BUSINESS BOOSTER LOAN PROGRAM | ABANDONED VEHICLE | INCLUSIONARY HOUSING | TOTALS |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | |
| Taxes | 1,989,564 | - | - | - | - | - | 6,117,452 |
| Licenses, permits and fees | - | - | 144,654 | - | 45,600 | 166,623 | 741,827 |
| Intergovernmental | - | - | - | - | - | - | 1,399,297 |
| Interest | - | 2,400 | - | - | - | 660 | 74,355 |
| Miscellaneous | - | 45,504 | 51 | - | - | - | 58,452 |
| Total revenues | <u>1,989,564</u> | <u>47,904</u> | <u>144,705</u> | <u>-</u> | <u>45,600</u> | <u>167,283</u> | <u>8,391,383</u> |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | 4,255 | - | 259,935 | - | - | - | 1,090,052 |
| Public Safety | - | - | - | - | 84,112 | - | 84,112 |
| Housing | - | 2,119,666 | - | - | - | 91,572 | 2,211,238 |
| Streets | - | - | - | - | - | - | 2,592,931 |
| Culture and recreation | - | - | - | - | - | - | 2,316,951 |
| Total expenditures | <u>4,255</u> | <u>2,119,666</u> | <u>259,935</u> | <u>-</u> | <u>84,112</u> | <u>91,572</u> | <u>8,295,284</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>1,985,309</u> | <u>(2,071,762)</u> | <u>(115,230)</u> | <u>-</u> | <u>(38,512)</u> | <u>75,711</u> | <u>96,099</u> |
| Transfers in | - | 6,361,684 | - | - | - | - | 6,407,605 |
| Transfers out | <u>(1,786,580)</u> | <u>(5,567,814)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(70,467)</u> | <u>(10,905,131)</u> |
| Total other financing sources (uses) | <u>(1,786,580)</u> | <u>793,870</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(70,467)</u> | <u>(4,497,526)</u> |
| Net change in fund balances | <u>198,729</u> | <u>(1,277,892)</u> | <u>(115,230)</u> | <u>-</u> | <u>(38,512)</u> | <u>5,244</u> | <u>(4,401,427)</u> |
| Fund balances, July 1 | (896,742) | (1,005,549) | (747,468) | 281,022 | (13,613) | 1,791,993 | 8,239,025 |
| Prior period adjustments | - | (452,463) | - | - | - | (102,395) | (485,394) |
| Fund balances, July 1, as restated | <u>(896,742)</u> | <u>(1,458,012)</u> | <u>(747,468)</u> | <u>281,022</u> | <u>(13,613)</u> | <u>1,689,598</u> | <u>7,753,631</u> |
| Fund balances, June 30 | <u>(698,013)</u> | <u>(2,735,904)</u> | <u>(862,698)</u> | <u>281,022</u> | <u>(52,125)</u> | <u>1,694,842</u> | <u>3,352,204</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, 2011

| | 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 | 960,000 | 960,000 | 1,435,211 | 475,211 | - | - | - | - |
| Intergovernmental | 4,600,690 | 4,600,690 | 1,330,928 | (3,269,762) | - | - | - | - |
| Interest | - | - | 35,732 | 35,732 | 2,500 | 2,500 | - | (2,500) |
| Miscellaneous | - | - | - | - | 10,000 | 10,000 | 9,917 | (83) |
| Total revenues | <u>5,560,690</u> | <u>5,560,690</u> | <u>2,801,871</u> | <u>(2,758,819)</u> | <u>12,500</u> | <u>12,500</u> | <u>9,917</u> | <u>(2,583)</u> |
| EXPENDITURES: | | | | | | | | |
| Public Safety | - | - | - | - | 10,141 | 10,141 | 71,612 | (61,471) |
| Streets | 7,556,962 | 7,556,962 | 2,521,319 | 5,035,643 | - | - | - | - |
| Total expenditures | <u>7,556,962</u> | <u>7,556,962</u> | <u>2,521,319</u> | <u>5,035,643</u> | <u>10,141</u> | <u>10,141</u> | <u>71,612</u> | <u>(61,471)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,996,272)</u> | <u>(1,996,272)</u> | <u>280,552</u> | <u>2,276,824</u> | <u>2,359</u> | <u>2,359</u> | <u>(61,695)</u> | <u>(64,054)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (448,897) | (448,897) | (2,259,231) | (1,810,334) | - | - | - | - |
| Total other financing sources (uses) | <u>(448,897)</u> | <u>(448,897)</u> | <u>(2,259,231)</u> | <u>(1,810,334)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | <u>(2,445,169)</u> | <u>(2,445,169)</u> | <u>(1,978,679)</u> | <u>466,490</u> | <u>2,359</u> | <u>2,359</u> | <u>(61,695)</u> | <u>(64,054)</u> |
| Fund balances, July 1 | 3,755,389 | 3,755,389 | 3,755,389 | - | 149,597 | 149,597 | 149,597 | - |
| Prior period adjustments | - | - | 77,000 | 77,000 | - | - | - | - |
| Fund balances, July 1, as restated | <u>3,755,389</u> | <u>3,755,389</u> | <u>3,832,389</u> | <u>77,000</u> | <u>149,597</u> | <u>149,597</u> | <u>149,597</u> | <u>-</u> |
| Fund balances, June 30 | <u>1,310,220</u> | <u>1,310,220</u> | <u>1,853,710</u> | <u>543,490</u> | <u>151,956</u> | <u>151,956</u> | <u>87,902</u> | <u>(64,054)</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, 2011

| | 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 | 73,000 | 73,000 | 62,574 | (10,426) | 13,000 | 13,000 | 2,842 | (10,158) |
| Interest | 1,000 | 1,000 | - | (1,000) | 12,000 | 12,000 | - | (12,000) |
| Total revenues | <u>74,000</u> | <u>74,000</u> | <u>62,574</u> | <u>(11,426)</u> | <u>25,000</u> | <u>25,000</u> | <u>2,842</u> | <u>(22,158)</u> |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 73,045 | 73,045 | 97,456 | (24,411) | 25,000 | 25,000 | 2,000 | 23,000 |
| Total expenditures | <u>73,045</u> | <u>73,045</u> | <u>97,456</u> | <u>(24,411)</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>955</u> | <u>955</u> | <u>(34,882)</u> | <u>(35,837)</u> | <u>-</u> | <u>-</u> | <u>842</u> | <u>842</u> |
| Net change in fund balances | 955 | 955 | (34,882) | (35,837) | - | - | 842 | 842 |
| Fund balances, July 1 | <u>215,391</u> | <u>215,391</u> | <u>215,391</u> | <u>-</u> | <u>495,548</u> | <u>495,548</u> | <u>495,548</u> | <u>-</u> |
| Fund balances, June 30 | <u><u>216,346</u></u> | <u><u>216,346</u></u> | <u><u>180,509</u></u> | <u><u>(35,837)</u></u> | <u><u>495,548</u></u> | <u><u>495,548</u></u> | <u><u>496,390</u></u> | <u><u>842</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, 2011

| | LIBRARY | | | | MEASURE E SALES 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 | 2,270,398 | 2,270,398 | 2,692,677 | 422,279 | - | - | - | - |
| Licenses, permits and fees | 77,800 | 77,800 | 55,194 | (22,606) | - | - | - | - |
| Intergovernmental | 115,000 | 115,000 | 68,369 | (46,631) | - | - | - | - |
| Interest | 66,800 | 66,800 | 26,629 | (40,171) | - | - | - | - |
| Miscellaneous | 138,468 | 138,468 | 2,980 | (135,488) | - | - | - | - |
| Total revenues | 2,668,466 | 2,668,466 | 2,845,849 | 177,383 | - | - | - | - |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | - | - | - | - | 53,937 | 53,937 | 646,952 | (593,015) |
| Culture and recreation | 2,778,139 | 2,778,139 | 2,316,951 | 461,188 | - | - | - | - |
| Total expenditures | 2,778,139 | 2,778,139 | 2,316,951 | 461,188 | 53,937 | 53,937 | 646,952 | (593,015) |
| Excess (deficiency) of revenues over (under) expenditures | (109,673) | (109,673) | 528,898 | 638,571 | (53,937) | (53,937) | (646,952) | (593,015) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (1,046,000) | (1,046,000) | (1,046,000) | - | - | - | - | - |
| Total other financing sources (uses) | (1,046,000) | (1,046,000) | (1,046,000) | - | - | - | - | - |
| Net change in fund balances | (1,155,673) | (1,155,673) | (517,102) | 638,571 | (53,937) | (53,937) | (646,952) | (593,015) |
| Fund balances, July 1 | 2,693,794 | 2,693,794 | 2,693,794 | - | 646,952 | 646,952 | 646,952 | - |
| Prior period adjustments | - | - | (7,536) | (7,536) | - | - | - | - |
| Fund balances, July 1, as restated | 2,693,794 | 2,693,794 | 2,686,258 | (7,536) | 646,952 | 646,952 | 646,952 | - |
| Fund balances, June 30 | 1,538,121 | 1,538,121 | 2,169,156 | 631,035 | 593,015 | 593,015 | - | (593,015) |

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, 2011

| | 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 | - | - | - | - | 1,786,580 | 1,786,580 | 1,989,564 | 202,984 |
| Licenses, permits, and fees | 172,514 | 172,514 | 264,340 | 91,826 | - | - | - | - |
| Interest | 500 | 500 | 8,934 | 8,434 | - | - | - | - |
| Total revenues | 173,014 | 173,014 | 273,274 | 100,260 | 1,786,580 | 1,786,580 | 1,989,564 | 202,984 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 241,192 | 241,192 | 79,454 | 161,738 | - | - | 4,255 | (4,255) |
| Total expenditures | 241,192 | 241,192 | 79,454 | 161,738 | - | - | 4,255 | (4,255) |
| Excess (deficiency) of revenues over (under) expenditures | (68,178) | (68,178) | 193,820 | 261,998 | 1,786,580 | 1,786,580 | 1,985,309 | 198,729 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | 45,921 | 45,921 | 45,921 | - | | | | |
| Transfers out | (175,039) | (175,039) | (175,039) | - | (1,786,580) | (1,786,580) | (1,786,580) | - |
| Total other financing sources (uses) | (129,118) | (129,118) | (129,118) | - | (1,786,580) | (1,786,580) | (1,786,580) | - |
| Net change in fund balances | (197,296) | (197,296) | 64,702 | 261,998 | - | - | 198,729 | 198,729 |
| Fund balances, July 1 | 872,711 | 872,711 | 872,711 | - | (896,742) | (896,742) | (896,742) | - |
| Fund balances, June 30 | 675,415 | 675,415 | 937,413 | 261,998 | (896,742) | (896,742) | (698,013) | 198,729 |

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, 2011

| | 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 | - | - | - | - | 266,000 | 266,000 | 144,654 | (121,346) |
| Intergovernmental | 5,000 | 5,000 | 2,400 | (2,600) | - | - | - | - |
| Miscellaneous | 57,750 | 57,750 | 45,504 | (12,246) | - | - | 51 | 51 |
| Total revenues | 62,750 | 62,750 | 47,904 | (14,846) | 266,000 | 266,000 | 144,705 | (121,295) |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | - | - | - | - | 277,097 | 277,097 | 259,935 | 17,162 |
| Housing | 4,837,213 | 4,847,013 | 2,119,666 | 2,727,347 | - | - | - | - |
| Total expenditures | 4,837,213 | 4,847,013 | 2,119,666 | 2,727,347 | 277,097 | 277,097 | 259,935 | 17,162 |
| Excess (deficiency) of revenues over (under) expenditures | (4,774,463) | (4,784,263) | (2,071,762) | 2,712,501 | (11,097) | (11,097) | (115,230) | (104,133) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | 2,030,814 | 2,030,814 | 6,361,684 | 4,330,870 | - | - | - | - |
| Transfers out | (131,214) | (5,561,634) | (5,567,814) | (6,180) | - | - | - | - |
| Total other financing sources (uses) | 1,899,600 | (3,530,820) | 793,870 | 4,324,690 | - | - | - | - |
| Net change in fund balances | (2,874,863) | (8,315,083) | (1,277,892) | 7,037,191 | (11,097) | (11,097) | (115,230) | (104,133) |
| Fund balances, July 1 | (1,005,549) | (1,005,549) | (1,005,549) | - | (747,468) | (747,468) | (747,468) | - |
| Prior period adjustments | - | - | (452,463) | (452,463) | - | - | - | - |
| Fund balances, July 1, as restated | (1,005,549) | (1,005,549) | (1,458,012) | (452,463) | (747,468) | (747,468) | (747,468) | - |
| Fund balances, June 30 | (3,880,412) | (9,320,632) | (2,735,904) | 6,584,728 | (758,565) | (758,565) | (862,698) | (104,133) |

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, 2011

| | 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 | - | - | - | - | 92,100 | 92,100 | 45,600 | (46,500) |
| Interest | 3,000 | 3,000 | - | (3,000) | - | - | - | - |
| Total revenues | 3,000 | 3,000 | - | (3,000) | 92,100 | 92,100 | 45,600 | (46,500) |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 100,000 | 100,000 | - | 100,000 | - | - | - | - |
| Public Safety | - | - | - | - | 92,064 | 92,064 | 84,112 | 7,952 |
| Total expenditures | 100,000 | 100,000 | - | 100,000 | 92,064 | 92,064 | 84,112 | 7,952 |
| Net change in fund balances | (97,000) | (97,000) | - | 97,000 | 36 | 36 | (38,512) | (38,548) |
| Fund balances, July 1 | 281,022 | 281,022 | 281,022 | - | (13,613) | (13,613) | (13,613) | - |
| Fund balances, June 30 | 184,022 | 184,022 | 281,022 | 97,000 | (13,577) | (13,577) | (52,125) | (38,548) |

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, 2011

| | INCLUSIONARY HOUSING | | | Variance With Final Budget - Positive (Negative) \$ |
|--|-----------------------|-----------------------|-------------------------|---|
| | Budgeted Amounts | | Actual \$ | |
| | Original \$ | Final \$ | | |
| | | | | |
| REVENUES: | | | | |
| Licenses, permits and fees | 72,021 | 72,021 | 166,623 | 94,602 |
| Interest | 5,000 | 5,000 | 660 | (4,340) |
| Total revenues | <u>77,021</u> | <u>77,021</u> | <u>167,283</u> | <u>90,262</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Housing | 1,145,820 | 1,145,820 | 91,572 | 1,054,248 |
| Total expenditures | <u>1,145,820</u> | <u>1,145,820</u> | <u>91,572</u> | <u>1,054,248</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,068,799)</u> | <u>(1,068,799)</u> | <u>75,711</u> | <u>1,144,510</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>(1,139,266)</u> | <u>(1,139,266)</u> | <u>5,244</u> | <u>1,144,510</u> |
| Fund balances, July 1 | 1,791,993 | 1,791,993 | 1,791,993 | - |
| Prior period adjustments | - | - | (102,395) | (102,395) |
| Fund balances, July 1, as restated | <u>1,791,993</u> | <u>1,791,993</u> | <u>1,689,598</u> | <u>(102,395)</u> |
| Fund balances, June 30 | <u><u>652,727</u></u> | <u><u>652,727</u></u> | <u><u>1,694,842</u></u> | <u><u>1,042,115</u></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, 2011

| | 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 | - | - | - | - | 7,659,098 | 7,659,098 | 6,140,373 | (1,518,725) |
| Interest | - | - | 34,516 | 34,516 | 30,000 | 30,000 | 31,179 | 1,179 |
| Special assessment | 145,329 | 145,329 | 111,932 | (33,397) | - | - | - | - |
| Total revenues | 145,329 | 145,329 | 146,448 | 1,119 | 7,689,098 | 7,689,098 | 6,171,552 | (1,517,546) |
| EXPENDITURES: | | | | | | | | |
| Debt service: | | | | | | | | |
| Principal | 1,151,219 | 1,151,219 | 1,151,219 | - | 917,512 | 917,512 | 913,247 | 4,265 |
| Interest and fiscal charges | 272,417 | 272,417 | 252,934 | 19,483 | 2,974,304 | 2,974,304 | 2,832,636 | 141,668 |
| Total expenditures | 1,423,636 | 1,423,636 | 1,404,153 | 19,483 | 3,891,816 | 3,891,816 | 3,745,883 | 145,933 |
| Excess (deficiency) of revenues over (under) expenditures | (1,278,307) | (1,278,307) | (1,257,705) | 20,602 | 3,797,282 | 3,797,282 | 2,425,669 | (1,371,613) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | 1,278,307 | 1,278,307 | 1,278,307 | - | 606,697 | 606,697 | 585,031 | (21,666) |
| Transfers out | - | - | - | - | (2,865,920) | (2,865,920) | (6,361,684) | (3,495,764) |
| Total other financing sources (uses) | 1,278,307 | 1,278,307 | 1,278,307 | - | (2,259,223) | (2,259,223) | (5,776,653) | (3,517,430) |
| Net change in fund balance | - | - | 20,602 | 20,602 | 1,538,059 | 1,538,059 | (3,350,984) | (4,889,043) |
| Fund balance, July 1 | 894,377 | 894,377 | 894,377 | - | 5,500,036 | 5,500,036 | 5,500,036 | - |
| Prior period adjustments | - | - | - | - | - | - | - | - |
| Fund balances, July 1, as restated | 894,377 | 894,377 | 894,377 | - | 5,500,036 | 5,500,036 | 5,500,036 | - |
| Fund balance, June 30 | 894,377 | 894,377 | 914,979 | 20,602 | 7,038,095 | 7,038,095 | 2,149,052 | (4,889,043) |

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2011

| | 2011 | 2010 |
|--|--------------------|--------------------|
| | \$ | \$ |
| GOVERNMENTAL FUNDS CAPITAL ASSETS: | | |
| Land | 14,014,625 | 14,424,456 |
| Buildings and improvements | 132,194,205 | 131,162,327 |
| Machinery and equipment | 10,803,899 | 10,218,460 |
| Infrastructure | 25,645,818 | 25,153,960 |
| Construction in progress | 378,976 | 201,023 |
| | <u>183,037,523</u> | <u>181,160,226</u> |
| Total Governmental Funds Capital Assets | <u>183,037,523</u> | <u>181,160,226</u> |
| INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE | | |
| General fund | 139,937,236 | 136,185,854 |
| Redevelopment agency funds | - | 1,874,085 |
| Other special revenue funds | 38,989,559 | 38,989,559 |
| Capital leases | 4,110,728 | 4,110,728 |
| | <u>183,037,523</u> | <u>181,160,226</u> |
| Total Governmental Funds Capital Assets | <u>183,037,523</u> | <u>181,160,226</u> |

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2011

| 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 | 1,804,673 | - | - | 2,810,343 |
| Library | - | 964,278 | 77,700 | 3,317,087 | - | - | 4,359,065 |
| Nondepartmental | 14,014,625 | 80,541,452 | 4,746,202 | 275,265 | 20,740,863 | 378,976 | 120,697,383 |
| Parks and Recreation | - | 3,070,166 | 4,969,743 | 939,489 | - | - | 8,979,398 |
| Police | - | 2,625,196 | 581,373 | 2,090,720 | - | - | 5,297,289 |
| Public Works | - | 21,342,531 | 12,269,894 | 1,618,694 | 4,904,955 | - | 40,136,074 |
| Total Governmental Funds Capital Assets | 14,014,625 | 109,322,493 | 22,871,712 | 10,803,899 | 25,645,818 | 378,976 | 183,037,523 |

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, 2011

| Function and Activity | Capital Assets | Additions | Deletions | Capital Assets |
|--|--------------------|------------------|----------------|--------------------|
| | Assets | | | Assets |
| | June 30, 2010 | | | June 30, 2011 |
| | \$ | \$ | \$ | \$ |
| City Manager | 28,605 | - | - | 28,605 |
| City Clerk | 59,083 | - | - | 59,083 |
| Community Develop. | 99,770 | - | - | 99,770 |
| Finance | 475,382 | 128,551 | 33,420 | 570,513 |
| Fire | 2,783,822 | 26,521 | | 2,810,343 |
| Library | 4,359,065 | - | - | 4,359,065 |
| Nondepartmental | 119,316,763 | 1,380,620 | | 120,697,383 |
| Parks and Recreation | 9,027,111 | - | 47,713 | 8,979,398 |
| Police | 5,274,378 | 164,607 | 141,696 | 5,297,289 |
| Public Works | 39,736,247 | 399,827 | - | 40,136,074 |
| Total Government Funds Capital Assets | <u>181,160,226</u> | <u>2,100,126</u> | <u>222,829</u> | <u>183,037,523</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 | 106 |
| 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 | 113 |
| These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax. | |
| Debt Capacity | 117 |
| 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 | 127 |
| 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 | 130 |
| 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 | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Governmental activities | | | | | | | | | | |
| Investment in capital assets, net of related debt | 44,759 | 43,902 | 48,309 | 47,962 | 59,561 | 90,258 | 109,668 | 116,232 | 114,050 | 112,462 |
| Restricted | 9,967 | 11,427 | 19,282 | 19,237 | 26,448 | 28,461 | 31,184 | 23,467 | 31,320 | 46,586 |
| Unrestricted | 8,455 | 12,862 | 13,016 | 17,581 | 12,472 | 12,221 | 5,924 | 14,074 | 2,737 | (18,060) |
| Total governmental activities net assets | <u>63,181</u> | <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> |
| Business-type activities | | | | | | | | | | |
| Investment in capital assets, net of related debt | 35,105 | 36,224 | 38,332 | 41,633 | 44,913 | 55,569 | 56,600 | 67,784 | 71,443 | 74,569 |
| Restricted | - | - | - | - | - | - | - | - | - | 2,834 |
| Unrestricted | 30,732 | 33,118 | 35,905 | 34,171 | 35,416 | 41,067 | 59,748 | 49,182 | 43,821 | 31,957 |
| Total business-type activities net assets | <u>65,837</u> | <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> |
| Primary government | | | | | | | | | | |
| Investment in capital assets, net of related debt | 79,864 | 80,126 | 86,641 | 89,595 | 104,474 | 145,827 | 166,268 | 184,016 | 185,493 | 187,031 |
| Restricted | 9,967 | 11,427 | 19,282 | 19,237 | 26,448 | 28,461 | 31,184 | 23,467 | 31,320 | 49,420 |
| Unrestricted | 39,187 | 45,980 | 48,921 | 51,752 | 47,888 | 53,288 | 65,672 | 63,256 | 46,558 | 13,897 |
| Total primary government net assets | <u>129,018</u> | <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> |

CITY OF WATSONVILLE, CALIFORNIA

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

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | 10,735 | 12,290 | 11,142 | 13,851 | 10,825 | 11,031 | 13,913 | 10,777 | 9,100 | 8,010 |
| Public safety | 12,390 | 14,053 | 15,884 | 18,242 | 17,767 | 19,704 | 24,624 | 24,161 | 22,752 | 22,258 |
| Housing | 5,191 | 3,854 | 6,976 | 12,106 | 8,791 | 4,321 | 2,879 | 1,413 | 8,734 | 6,118 |
| Highways and streets | 5,523 | 4,094 | 6,126 | 3,844 | 4,144 | 4,142 | 5,643 | 4,686 | 6,656 | 7,775 |
| Culture and recreation | 4,426 | 4,802 | 4,908 | 5,491 | 4,920 | 4,475 | 5,319 | 5,509 | 7,393 | 7,498 |
| Interest on long term debt | 1,032 | 1,083 | 1,937 | 1,593 | 3,924 | 3,505 | 3,602 | 3,384 | 3,269 | 3,089 |
| Total government activities | <u>39,297</u> | <u>40,176</u> | <u>46,973</u> | <u>55,127</u> | <u>50,371</u> | <u>47,178</u> | <u>55,980</u> | <u>49,930</u> | <u>57,904</u> | <u>54,748</u> |
| Business-type activities: | | | | | | | | | | |
| Water | 6,058 | 6,110 | 6,524 | 7,262 | 7,824 | 8,871 | 10,295 | 13,871 | 11,483 | 11,187 |
| Sewer | 6,006 | 6,342 | 7,149 | 7,398 | 7,857 | 8,440 | 8,517 | 8,886 | 9,335 | 9,342 |
| Solid Waste | 4,948 | 5,338 | 5,524 | 6,512 | 7,157 | 8,259 | 8,373 | 8,873 | 8,460 | 8,165 |
| Airport | 1,991 | 1,877 | 2,076 | 2,537 | 2,491 | 3,671 | 2,642 | 2,863 | 2,364 | 2,520 |
| Total business-type activities | <u>19,003</u> | <u>19,667</u> | <u>21,273</u> | <u>23,709</u> | <u>25,329</u> | <u>29,241</u> | <u>29,827</u> | <u>34,493</u> | <u>31,642</u> | <u>31,214</u> |
| Total primary government | <u>58,300</u> | <u>59,843</u> | <u>68,246</u> | <u>78,836</u> | <u>75,700</u> | <u>76,419</u> | <u>85,807</u> | <u>84,423</u> | <u>89,546</u> | <u>85,962</u> |
| Program Revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | 5,146 | 4,125 | 11,756 | 6,950 | 7,404 | 5,687 | 3,985 | 3,894 | 4,768 | 4,177 |
| Public safety | 1,151 | 1,195 | 1,496 | 1,165 | 1,797 | 1,769 | 1,550 | 2,068 | 1,793 | 1,556 |
| Housing | 950 | 1,101 | 2,358 | 2,128 | 1,192 | 2,234 | 3,960 | 477 | 512 | 3,612 |
| Highways and streets | 2,409 | 2,701 | 2,257 | 1,774 | 2,612 | 3,006 | 3,583 | 2,779 | 2,757 | 3,586 |
| Culture and recreation | 1,160 | 1,207 | 600 | 608 | 756 | 858 | 613 | 3,632 | 1,029 | 697 |
| Operating grants and contributions | 1,614 | 1,349 | 2,260 | 5,348 | 5,746 | 18,079 | 12,850 | 5,220 | 5,311 | 3,443 |
| Capital grants and contributions | 4,126 | 4,360 | 6,802 | 9,792 | 7,767 | 10,012 | 3,436 | 1,737 | 2,732 | 2,546 |
| Total governmental activities program revenues | <u>16,556</u> | <u>16,038</u> | <u>27,529</u> | <u>27,765</u> | <u>27,274</u> | <u>41,645</u> | <u>29,977</u> | <u>19,807</u> | <u>18,902</u> | <u>19,617</u> |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 5,843 | 7,490 | 7,897 | 8,104 | 8,757 | 13,875 | 25,460 | 12,884 | 9,089 | 8,513 |
| Sewer | 6,507 | 6,241 | 6,748 | 7,325 | 7,638 | 6,624 | 6,348 | 6,449 | 7,557 | 10,140 |
| Solid Waste | 5,837 | 5,842 | 6,240 | 7,548 | 8,373 | 8,229 | 8,689 | 7,798 | 7,890 | 8,521 |
| Airport | 1,620 | 1,613 | 1,629 | 1,874 | 2,032 | 2,380 | 2,558 | 2,239 | 2,057 | 1,973 |
| Operating grants and contributions | 332 | 467 | 435 | 252 | 243 | 950 | 811 | 669 | 1,046 | 1,828 |
| Capital grants and contributions | 254 | 592 | 1,504 | 611 | 1,358 | 5,407 | 6,309 | 1,393 | 2,018 | 128 |
| Total business-type activities program revenues | <u>20,393</u> | <u>22,245</u> | <u>24,453</u> | <u>25,714</u> | <u>28,401</u> | <u>37,465</u> | <u>50,175</u> | <u>31,432</u> | <u>29,657</u> | <u>31,103</u> |

Continued

CITY OF WATSONVILLE, CALIFORNIA

Changes In Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|----------------|-----------------|-----------------|-----------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Net (expense) / revenue | | | | | | | | | | |
| Governmental activities | (22,741) | (24,138) | (19,444) | (27,362) | (23,097) | (5,533) | (26,003) | (30,318) | (39,001) | (35,132) |
| Business-type activities | 1,390 | 2,578 | 3,180 | 2,005 | 3,072 | 8,224 | 20,348 | (3,061) | (1,985) | (111) |
| Total primary government net expense | <u>(21,351)</u> | <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> |
| General Revenues and Other Changes in Net Assets | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property taxes | 9,280 | 11,066 | 11,722 | 16,715 | 20,459 | 21,140 | 21,352 | 20,759 | 18,082 | 17,380 |
| Sales taxes | 7,667 | 8,087 | 8,298 | 8,446 | 9,786 | 10,202 | 11,165 | 9,969 | 9,207 | 10,101 |
| Franchise taxes | 1,288 | 1,101 | 1,064 | 1,115 | 428 | 183 | 157 | 159 | 401 | 606 |
| Motor/vehicle taxes | 3,035 | 3,806 | 2,262 | 1,142 | 1,268 | 1,251 | 1,195 | 1,051 | 1,299 | 1,803 |
| Utility users taxes | 2,760 | 2,775 | 2,678 | 2,733 | 2,840 | 2,966 | 2,955 | 2,775 | 2,711 | 2,938 |
| Other taxes | 1,093 | 734 | 1,937 | 1,192 | 927 | 1,006 | 1,188 | 977 | 961 | 1,075 |
| Unrestricted investment earnings | 1,660 | 1,020 | 926 | 1,257 | 1,206 | 1,635 | 1,441 | 1,126 | 1,245 | 873 |
| Sale of capital assets | 524 | 5 | 440 | - | - | - | - | - | - | - |
| Total governmental activities | <u>27,307</u> | <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> |
| Business-type activities: | | | | | | | | | | |
| Unrestricted investment earnings | 1,446 | 1,049 | 724 | 1,097 | 1,346 | 2,165 | 2,142 | 3,780 | 455 | 1,116 |
| Sale of capital assets | - | 1 | 1 | - | - | - | - | - | - | - |
| Total business-type activities | <u>1,446</u> | <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> |
| Total primary government | <u>28,753</u> | <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> |
| Change in net assets | | | | | | | | | | |
| Governmental activities | 4,566 | 4,456 | 9,883 | 5,238 | 13,817 | 32,850 | 13,450 | 6,498 | (5,095) | (356) |
| Business-type activities | 2,836 | 3,628 | 3,905 | 3,102 | 4,418 | 10,389 | 22,490 | 719 | (1,530) | 1,005 |
| Total primary government | <u>7,402</u> | <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> |

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 |
|--------------------|---------------------|------------------|----------------------|--------------------------|-------------------------|------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 2002 | 9,280 | 7,667 | 1,288 | 3,035 | 2,760 | 1,093 | 25,123 |
| 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 |

CITY OF WATSONVILLE, CALIFORNIA

**Fund Balances of Governmental Funds
Last Ten Fiscal Years**

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

| | Fiscal Year | | | | | | | | | |
|------------------------------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| General fund | | | | | | | | | | |
| Nonspendable | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 69 |
| Restricted | 4,183 | 3,859 | 3,921 | 5,326 | 6,099 | 6,035 | 5,407 | 2,749 | 2,749 | - |
| Unassigned | 5,973 | 7,089 | 7,139 | 2,979 | - | 949 | 1,244 | 72 | (852) | 1,530 |
| Total general fund | <u>10,156</u> | <u>10,948</u> | <u>11,060</u> | <u>8,305</u> | <u>6,099</u> | <u>6,984</u> | <u>6,651</u> | <u>2,821</u> | <u>1,897</u> | <u>1,599</u> |
| | | | | | | | | | | |
| All other governmental funds | | | | | | | | | | |
| Restricted, reported in | | | | | | | | | | |
| Special revenue funds | 9,155 | 11,153 | 16,563 | 38,828 | 31,106 | 15,352 | 10,379 | 15,281 | 11,757 | 10,483 |
| Debt service funds | 812 | 813 | 32,230 | 5,736 | 4,389 | 4,496 | 5,970 | 8,118 | 6,394 | 3,064 |
| Unassigned | - | - | - | - | - | - | - | - | - | (4,110) |
| Total all other governmental funds | <u>9,967</u> | <u>11,966</u> | <u>48,793</u> | <u>44,564</u> | <u>35,495</u> | <u>19,848</u> | <u>16,349</u> | <u>23,399</u> | <u>18,151</u> | <u>9,437</u> |

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|----------------|---------------|---------------|----------------|-----------------|-----------------|----------------|---------------|----------------|----------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues | | | | | | | | | | |
| Taxes | 25,055 | 27,508 | 27,961 | 31,343 | 34,572 | 36,748 | 38,012 | 35,781 | 32,660 | 33,903 |
| Licenses, permits, and fees | 2,151 | 4,545 | 10,880 | 5,911 | 7,678 | 6,649 | 4,716 | 4,221 | 2,970 | 3,506 |
| Intergovernmental | 5,538 | 6,111 | 8,051 | 11,799 | 14,937 | 13,171 | 15,995 | 8,889 | 5,608 | 4,461 |
| Charges for services | 2,522 | 2,715 | 2,953 | 2,807 | 3,144 | 2,083 | 3,949 | 3,581 | 4,326 | 5,243 |
| Fines | 431 | 206 | 547 | 478 | 564 | 466 | 608 | 666 | 984 | 757 |
| Interest | 1,650 | 1,333 | 1,318 | 2,529 | 2,821 | 3,534 | 2,463 | 1,783 | 1,650 | 1,127 |
| Special assessment | 68 | 91 | 83 | 83 | 419 | 153 | 156 | 144 | 147 | 112 |
| Miscellaneous | 1,644 | 1,190 | 1,466 | 2,160 | 1,044 | 2,219 | 4,203 | 3,519 | 1,929 | 449 |
| Total revenues | 39,059 | 43,699 | 53,259 | 57,110 | 65,179 | 65,023 | 70,102 | 58,584 | 50,274 | 49,558 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | 10,550 | 10,273 | 9,993 | 11,483 | 10,636 | 10,298 | 8,937 | 10,924 | 7,567 | 6,314 |
| Public safety | 12,681 | 13,206 | 14,728 | 17,024 | 17,987 | 18,759 | 16,415 | 20,807 | 21,738 | 21,200 |
| Housing | 4,228 | 2,042 | 2,704 | 6,901 | 4,575 | 4,285 | 1,933 | 1,244 | 8,720 | 5,920 |
| Streets | 1,510 | 2,492 | 2,776 | 2,964 | 3,666 | 3,875 | 3,647 | 3,913 | 6,084 | 7,225 |
| Culture and recreation | 3,813 | 3,886 | 4,112 | 4,402 | 4,449 | 3,955 | 3,156 | 4,162 | 6,039 | 5,999 |
| Capital outlay | 10,058 | 7,911 | 11,317 | 17,591 | 29,609 | 33,143 | 37,607 | 8,997 | 417 | - |
| Debt service: | | | | | | | | | | |
| Principal | 730 | 602 | 629 | 2,025 | 1,514 | 1,715 | 1,828 | 1,877 | 1,993 | 2,064 |
| Interest and fiscal charges | 1,008 | 1,079 | 1,681 | 1,344 | 3,902 | 3,543 | 3,602 | 3,436 | 3,259 | 3,085 |
| Bond issuance costs | - | - | 692 | - | - | - | - | - | - | - |
| Total expenditures | 44,578 | 41,491 | 48,632 | 63,734 | 76,338 | 79,573 | 77,125 | 55,360 | 55,817 | 51,807 |
| Excess (deficiency) of revenues over (under) expenditures | (5,519) | 2,208 | 4,627 | (6,624) | (11,159) | (14,550) | (7,023) | 3,224 | (5,543) | (2,249) |
| Other financing sources (uses) | | | | | | | | | | |
| Sale of fixed assets | 524 | 5 | 440 | - | - | - | - | - | - | - |
| Bond proceeds | - | 30 | 33,698 | 738 | - | 179 | - | - | - | - |
| Payment to defease bonds | - | - | (1,819) | - | - | - | - | - | - | - |
| Operating transfers in | 4,024 | 5,621 | 5,217 | 7,536 | 7,827 | 10,550 | 7,916 | 7,169 | 9,460 | 18,321 |
| Operating transfers out | (4,024) | (5,621) | (5,217) | (7,536) | (7,827) | (10,550) | (7,916) | (7,169) | (9,460) | (18,321) |
| Total other financing sources (uses) | 524 | 35 | 32,319 | 738 | - | 179 | - | - | - | - |
| Net change in fund balances | (4,995) | 2,243 | 36,946 | (5,886) | (11,159) | (14,371) | (7,023) | 3,224 | (5,543) | (2,249) |
| Debt service as a percentage of noncapital expenditures | 5.3% | 5.3% | 6.7% | 7.9% | 13.1% | 12.8% | 15.9% | 12.9% | 10.5% | 11.0% |

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

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

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 |
|--------------------|---------------------|------------------|----------------------|--------------------------|-------------------------|------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 2002 | 9,280 | 7,667 | 1,288 | 3,035 | 2,760 | 1,025 | 25,055 |
| 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 |

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 | Real Property | | | | Unsecured Property | Less: Tax Exempt Real Property | Total Taxable Assessed Value | Total Direct Overlapping Tax Rate | Estimated Actual Taxable Value | Assessed Value as a Percentage of Actual Value |
|------------------------------------|-----------------------------|------------------------|------------------------|-------------------|-----------------------|--------------------------------------|------------------------------------|--|---|---|
| | Residential Property (1) | Commercial Property | Industrial Property | Other Property | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | \$ | % |
| 2002 | 1,472,224 | 438,343 | N/A | 187,288 | N/A | 104,162 | 1,993,693 | 1.13 | 3,179,734 | 0.63 |
| 2003 | 1,484,687 | 580,389 | N/A | 191,900 | N/A | 121,887 | 2,135,089 | 1.19 | 3,405,246 | 0.63 |
| 2004 | 1,648,865 | 664,307 | N/A | 188,113 | N/A | 124,721 | 2,376,564 | 1.20 | 3,779,037 | 0.63 |
| 2005 | 1,927,448 | 779,823 | N/A | 208,514 | N/A | 125,971 | 2,789,814 | 1.20 | 4,449,464 | 0.63 |
| 2006 | 2,276,093 | 811,406 | N/A | 217,827 | N/A | 146,664 | 3,158,662 | 1.16 | 5,037,738 | 0.63 |
| 2007 | 2,345,741 | 518,890 | 93,057 | 323,246 | 173,577 | 147,425 | 3,307,086 | 1.16 | 4,651,582 | 0.71 |
| 2008 | 2,625,675 | 531,301 | 104,505 | 322,921 | 228,186 | 150,749 | 3,661,839 | 1.13 | 4,570,286 | 0.80 |
| 2009 | 2,526,547 | 555,128 | 106,765 | 335,411 | 243,733 | 156,713 | 3,610,871 | 1.13 | 3,322,197 | 1.09 |
| 2010 | 2,105,051 | 572,622 | 111,366 | 333,863 | 233,020 | 146,407 | 3,209,515 | 1.14 | 3,241,299 | 0.99 |
| 2011 | 2,060,427 | 570,451 | 109,662 | 330,169 | 220,499 | 162,368 | 3,128,840 | 1.14 | 3,074,368 | 0.00 |

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

(2.) Estimated Actual Value is derived from a series of calculations comparing median assessed values from 1940 to current median sale prices.

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**

| <u>Year</u> | <u>Basic Countywide Levy</u> | <u>School Districts</u> | <u>Retirement</u> | <u>Total</u> |
|-------------|--------------------------------------|-----------------------------|-------------------|--------------|
| 2002 | 1.00000 | 0.019 | 0.111 | 1.13000 |
| 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 |

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

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2011
(amounts expressed in thousands)

| | 2011 | | | 2003 | | |
|--------------------------------|------------------------|------|--|------------------------|------|--|
| | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| | \$ | | % | \$ | | % |
| Watsonville Hospital Corp. | 59,175 | 1 | 1.89 | 51,963 | 1 | 3.52 |
| S. Martinelli Co. | 37,065 | 2 | 1.18 | 19,407 | 2 | 1.32 |
| Granite Construction Co. | 18,482 | 3 | 0.59 | 19,300 | 3 | 1.31 |
| Hd Development of Maryland Inc | 18,146 | 4 | 0.58 | | | |
| OW George Jr. Trustee, etal | 17,507 | 5 | 0.56 | | | |
| Cascade Properties Llc | 16,902 | 6 | 0.54 | | | |
| WRI Freedom Center LP | 16,007 | 7 | 0.51 | 11,284 | 10 | 0.77 |
| Target Stores | 15,676 | 8 | 0.50 | | | |
| Watsonville Square Llc | 14,800 | 9 | 0.47 | 12,932 | 7 | 0.88 |
| Meadows Mobile Manor Llc | 13,394 | 10 | 0.43 | | | |
| Albertsons Inc. | | | | 13,840 | 6 | 0.94 |
| Agrilink Foods Inc. | | | | 17,876 | 4 | 1.16 |
| NC Foods Inc. | | | | 14,876 | 5 | 1.01 |
| Indalex West Inc. | | | | 12,406 | 8 | 0.84 |
| Sanmina SCI Corp. | | | | 11,359 | 9 | 0.77 |
| Totals | <u>227,154</u> | | <u>7.25</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 Collections
Last Ten Fiscal Years**

| Fiscal Year | General Current | General Prior | Retirement Current | Total |
|--------------------|------------------------|----------------------|---------------------------|--------------|
| | \$ | \$ | \$ | \$ |
| 2002 | 3,052,931 | - | 2,139,876 | 5,192,807 |
| 2003 | 3,277,676 | - | 2,258,582 | 5,536,258 |
| 2004 | 3,321,804 | - | 2,658,810 | 5,980,614 |
| 2005 | 3,889,658 | - | 3,084,791 | 6,974,449 |
| 2006 | 4,106,482 | - | 3,648,007 | 7,754,489 |
| 2007 | 5,360,816 | - | 3,288,883 | 8,649,699 |
| 2008 | 5,693,931 | - | 2,465,279 | 8,159,210 |
| 2009 | 5,276,193 | - | 2,255,586 | 7,531,779 |
| 2010 | 4,639,398 | - | 2,015,177 | 6,654,575 |
| 2011 | 4,362,684 | - | 1,989,564 | 6,352,248 |

General Real Estate Property Taxes does not include Redevelopment Tax Increments which are reported within the Agency's Annual Financial Report.

Source: City of Watsonville

*Levies equal collections

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</u> | <u>Special</u> | <u>Capital Leases</u> | <u>Revenue</u> | <u>General</u> | <u>Capital Leases</u> | | | |
| | <u>Obligation Debt</u> | <u>Assessment Debt</u> | | <u>Bonds</u> | <u>Obligation Debt</u> | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | |
| 2002 | 4,517 | 657 | 115 | 22,535 | 1,978 | 3,602 | 33,404 | 4.74% | 0.697 |
| 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 |

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.

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 \$ |
|--------------------|--------------------------------------|---|--------------------|---|-------------------------|
| 2002 | 32,747 | 109 | 32,638 | 1.03% | 147 |
| 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 |

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>2002</u> | <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> |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Debt limit | 68,357 | 87,262 | 96,175 | 112,437 | 118,450 | 118,487 | 142,972 | 135,408 | 120,357 | 117,333 |
| Total net debt applicable to limit | 2,002 | 2,003 | 2,004 | 1,205 | 27,301 | 26,494 | 2,008 | 25,535 | 26,001 | 25,410 |
| Legal debt margin | <u>66,355</u> | <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>91,923</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 2.929% | 2.295% | 2.084% | 1.072% | 23.049% | 22.360% | 1.404% | 18.858% | 21.603% | 21.656% |

Legal Debt Margin Calculation for Fiscal Year 2011

| | |
|--|------------------------|
| Assessed value | \$3,128,882 |
| Add back: exempt real property | |
| Total assessed value | <u>3,128,882</u> |
| Debt Limit = 3.75% of assessed valuation | 117,333 |
| Debt applicable to limit | 26,325 |
| Less: Amount set aside for repayment of general obligation debt | <u>915</u> |
| Total net debt applicable to limit | <u>25,410</u> |
| Legal debt margin | <u><u>\$91,923</u></u> |

CITY OF WATSONVILLE, CALIFORNIA

**Computation of Direct and Overlapping Bonded Debt
June 30, 2011**

(amounts expressed in thousands, except per capita amount)

| Jurisdiction | Total Debt Outstanding | Percentage Applicable | Estimated Share of Overlapping Debt |
|--|---------------------------------------|----------------------------------|--|
| | \$ | | \$ |
| Direct: | | | |
| City of Watsonville | 29,069 | 100% | 29,069 |
| Overlapping Debt: | | | |
| City of Watsonville 1915 Act Bonds | 674 | 100% | 674 |
| Cabrillo Joint Community College District | 163,346 | 9.03% | 14,755 |
| Pajaro Valley Unified School District | 53,415 | 23.16% | 12,371 |
| Pajaro Valley Unified School District Certificates of Participation | 2,755 | 23.16% | 653 |
| Cabrillo Joint Community College District Certificates of Participation | 1,980 | 9.03% | 179 |
| Santa Cruz County Certificates of Participations | 64,594 | 9.15% | 5,913 |
| Monterey Bay Unified Air Pollution Control Authority | 2,110 | 3.23% | 68 |
| Total | <u><u>317,943</u></u> | | <u><u>63,682</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 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 | 2,438,093 |

Library Certificates of Participation outstanding
as of 6-30-11 \$1,970,000.

Total Library revenues received from Measure B Taxes
as of 6/30/11 \$30,364,995

* 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* | 2,438,093 | 1,046,000 | 233.09% |

* 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 |
|--------------------|-----------------------|----------------------------------|--|---------------------|-----------------|
| | \$ | \$ | \$ | \$ | |
| 2001-02 | 6,551,010 | 5,073,608 | 1,477,402 | 728,234 | 202.87% |
| 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% |

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 |
|--------------------|-------------------------------|--|--|-----------------------------|-----------------|
| | \$ | \$ | \$ | \$ | |
| 2011-12 | 9,858,186 | 7,605,837 | 2,252,349 | 1,294,059 | 174.05% |
| 2012-13 | 10,153,931 | 7,757,954 | 2,395,977 | 1,294,059 | 185.15% |
| 2013-14 | 10,458,549 | 7,913,113 | 2,545,436 | 1,294,059 | 196.70% |
| 2014-15 | 10,772,306 | 8,071,375 | 2,700,930 | 1,294,059 | 208.72% |
| 2015-16 | 11,095,475 | 8,232,803 | 2,862,672 | 2,094,059 | 136.70% |

(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 2010-11**

| User | Revenues | Percentage of Total |
|--|-------------------------|--------------------------------|
| | \$ | % |
| 1 Pajaro Valley Unified School District | 160,600 | 1.89 |
| 2 Martinelli & Company | 125,396 | 1.47 |
| 3 Blue Ribbon Frozen Foods | 63,136 | 0.74 |
| 4 Meadows Manor Apartments | 57,100 | 0.67 |
| 5 Sunny Meadow Apartments | 54,005 | 0.63 |
| 6 Pinto Lake Mobile Estates | 48,947 | 0.57 |
| 7 Farmer's Processing | 33,286 | 0.39 |
| 8 H A Rider & Son | 28,345 | 0.33 |
| 9 Francis Property MTMT Inc. | 27,178 | 0.32 |
| 10 Green Valley Village | 26,071 | 0.31 |
| | | |
| Total Top Ten | <u>624,064</u> | <u>7.33</u> |
| Total Revenues | <u><u>8,513,064</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 |
|-------------|---|-------------------|-------------------|--------------|---------------|
| 2001 | 11,196 | 1,258 | 34 | 709 | 13,197 |
| 2002 | 11,226 | 1,354 | 33 | 564 | 13,177 |
| 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 |

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

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

| Calendar Year | Gallons Delivered (1) |
|--------------------------|----------------------------------|
| 2001 | 2,347.6 |
| 2002 | 2,373.1 |
| 2003 | 2,306.1 |
| 2004 | 2,542.8 |
| 2005 | 2,288.3 |
| 2006 | 2,366.3 |
| 2007 | 2,366.3 |
| 2008 | 2,387.4 |
| 2009 | 2,641.2 |
| 2010 | 2,732.9 |

(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> |
|---------------------------|------------------------------|---|---|----------------------------------|---|---|
| 2002 | 47,936 | 704,593 | 14.699 | N/A | 21,931 | 12.70% |
| 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% |

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>2011</u> | | | <u>2001</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 | 2,061 | 1 | 13.67% | 2,100 | 1 | 13.39% |
| Watsonville Community Hospital | 693 | 2 | 4.60% | 675 | 3 | 4.30% |
| Fox Factory | 400 | 3 | 2.65% | | | |
| City of Watsonville * | 374 | 4 | 2.48% | 524 | 4 | 3.34% |
| West Marine Products | 279 | 5 | 1.85% | 450 | 8 | 2.87% |
| Target | 211 | 6 | 1.40% | | | |
| S Martinelli & Co. | 180 | 7 | 1.19% | | | |
| Couch Distributing | 170 | 8 | 1.13% | | | |
| Salud Para La Gente | 160 | 9 | 1.06% | | | |
| Mi Pueblo Food Center | 144 | 10 | 0.96% | | | |
| Agrilink Foods, Inc. | | | | 793 | 2 | 5.06% |
| Granite Construction Company | | | | 480 | 6 | 3.06% |
| Graniterock Company | | | | 460 | 7 | 2.93% |
| Del Mar Food Products, Inc | | | | 500 | 5 | 3.19% |
| Hadco | | | | 375 | 9 | 2.39% |
| Columbia Pacific Extrusion | | | | 235 | 10 | 1.50% |
| Total | <u><u>4,672</u></u> | | <u><u>30.99%</u></u> | <u><u>6,592</u></u> | | <u><u>42.03%</u></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 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General Government | 12 | * 19 | 19 | 19 | 19 | */*** 8 | 7 | 7 | 6 | 6 |
| City Clerk | N/A | N/A | N/A | N/A | N/A | *** 4 | 4 | 4 | 4 | 4 |
| Community Development | * 17 | 18 | 18 | 18 | 19 | * 17 | 19 | 16 | 16 | 15 |
| Finance | 24 | 17 | 17 | 17 | 17 | 24 | 25 | 25 | 24 | 22 |
| Fire | 37 | 36 | 35 | 35 | 35 | 36 | 40 | 40 | 36 | 36 |
| Police | | | | | | | | | | |
| Officers | 67 | 67 | 64 | 64 | 64 | 72 | 73 | 75 | 74 | 70 |
| Civilians | 21 | 21 | 25 | 25 | 25 | 20 | 21 | 21 | 19 | 16 |
| Library | 22 | 26 | 26 | 26 | 26 | 26 | 26 | 25 | 25 | 24 |
| Parks & Community Services | 31 | ** 36 | 36 | 36 | 36 | 37 | 38 | 37 | 33 | 28 |
| Public Works | 25 | 26 | 26 | 26 | 26 | 26 | 26 | 24 | 22 | 17 |
| Airport | ** 5 | 5 | 5 | 5 | 5 | 7 | 7 | 7 | 8 | 8 |
| Enterprise Community | ** 2 | - | - | - | - | - | - | - | - | - |
| Neighborhood Services | 2 | - | - | - | - | - | - | - | - | - |
| LLMAD | - | - | - | - | 1 | 1 | 1 | 1 | 1 | 1 |
| Parking Garage | - | - | - | - | 2 | 2 | 2 | 3 | 3 | 2 |
| Redevelopment and Housing | 11 | 10 | 10 | 10 | 10 | 7 | 8 | 8 | 8 | 7 |
| Solid Waste | 28 | 31 | 31 | 31 | 33 | 36 | 37 | 36 | 35 | 34 |
| Wastewater | 34 | 33 | 33 | 36 | 36 | 35 | 38 | 38 | 41 | 42 |
| Water | 21 | 24 | 24 | 24 | 26 | 25 | 27 | 27 | 28 | 30 |
| | 359 | 369 | 369 | 372 | 380 | 383 | 399 | 394 | 383 | 362 |

* 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 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General Government: | | | | | | | | | | |
| City Council meetings | 21 | 25 | 25 | 24 | 27 | 24 | 21 | 27 | 23 | 24 |
| Resolutions processed | 315 | 384 | 385 | 320 | 249 | 311 | 243 | 232 | 186 | 209 |
| Recruitments | 53 | 27 | 31 | 43 | 25 | 42 | 29 | 25 | 12 | 21 |
| Community Development: | | | | | | | | | | |
| Planning application reviews | 345 | 400 | 500 | 520 | 425 | 486 | 543 | 451 | 373 | 341 |
| Construction inspections | 3,204 | 4,548 | 13,225 | 9,006 | 7,000 | 6,208 | 4,361 | 3,344 | 2,470 | 1,508 |
| Building Permits | 835 | 1,184 | 1,239 | 918 | 1,160 | 978 | 727 | 1,032 | 1,757 | 1,175 |
| Finance: | | | | | | | | | | |
| Payroll checks issued | 12,947 | 12,917 | 13,733 | 13,548 | 12,980 | 12,188 | 13,477 | 13,446 | 13,344 | 13,575 |
| Utility accounts | 13,280 | 13,091 | 13,274 | 14,035 | 14,433 | 14,466 | 15,541 | 14,546 | 15,980 | 14,833 |
| A/P checks issued | 8,864 | 9,336 | 9,063 | 9,155 | 9,198 | 9,560 | 9,054 | 8,697 | 8,859 | 7,879 |
| Fire: | | | | | | | | | | |
| Field incidents dispatched | 3,312 | 3,312 | 3,354 | 3,065 | 3,367 | 3,459 | 3,889 | 3,552 | 3,896 | 4,590 |
| Library: | | | | | | | | | | |
| Items used/checked out | 351,136 | 342,476 | 379,332 | 385,010 | 390,000 | 337,018 | 395,000 | 397,428 | 257,195 | 327,961 |
| Parks & Community Services: | | | | | | | | | | |
| Facility Drop In Totals | 2,620 | 1,768 | 1,364 | 1,494 | 1,187 | 1,524 | 1,824 | 2,671 | 1,386 | 1,315 |
| Police: | | | | | | | | | | |
| Moving and Parking Citations | 12,372 | 12,366 | 13,248 | 14,387 | 16,567 | 15,926 | 14,854 | 15,807 | 16,709 | 10,599 |
| Service Calls Dispatch | 57,183 | 62,000 | 57,667 | 54,819 | 58,559 | 61,745 | 81,281 | 81,303 | 61,643 | 57,651 |
| URC Crime Rate (# crimes/1,000 population, calendar years) | 48 | 48 | 50 | 43 | 46 | 46 | 52 | 43 | 42 | 32 |
| Wastewater: | | | | | | | | | | |
| Annual volume of septage treated (in million gallons) | 7.62 | 7.62 | 7.62 | 9.62 | 9.62 | 4.90 | 7.11 | 7.17 | 7.45 | 7.12 |
| Water: | | | | | | | | | | |
| Water production (acre feet) | 7,683 | 7,588 | 7,804 | 7,574 | 7,915 | 8,481 | 8,634 | 8,806 | 8,834 | 7,000 |
| Solid Waste: | | | | | | | | | | |
| Refuse handled (tons) | 31,965 | 30,029 | 35,133 | 37,935 | 42,789 | 39,334 | 36,539 | 31,484 | 35,179 | 32,936 |
| Recycled material (tons) | 5,526 | 4,632 | 5,305 | 5,540 | 5,554 | 5,560 | 5,913 | 6,016 | 6,023 | 4,006 |

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

| Function | <u>2002</u> | <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> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 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 | 18 | 19 | 19 | 18 | 18 |
| Patrol motorcycles | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 6 |
| Library: | | | | | | | | | | |
| Buildings | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Parks & Community Services: | | | | | | | | | | |
| Parks | 17 | 17 | 21 | 21 | 21 | 24 | 21 | 21 | 21 | 21 |
| Acreage of parks | 62.5 | 62.5 | 65.0 | 65.0 | 65.0 | 85.0 | 65.0 | 85.0 | 85.0 | 85.0 |
| Community Centers | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| Public Works: | | | | | | | | | | |
| Miles of streets | 83 | 85 | 85 | 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 | 16.5 |
| Water: | | | | | | | | | | |
| Maximum pumping capacity* | 19.6 | 19.6 | 19.6 | 19.6 | 19.6 | 19.6 | 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 | 7.0 | 6.3 | 6.3 | 6.3 | 6.3 |
| Solid Waste: | | | | | | | | | | |
| Collection trucks | 13 | 13 | 13 | 13 | 13 | 20 | 20 | 20 | 20 | 20 |

Source: City of Watsonville departments