

# Comprehensive Annual Financial Report



**City of Watsonville, California  
Fiscal Year Ending June 30, 2010**



**City of Watsonville, California**

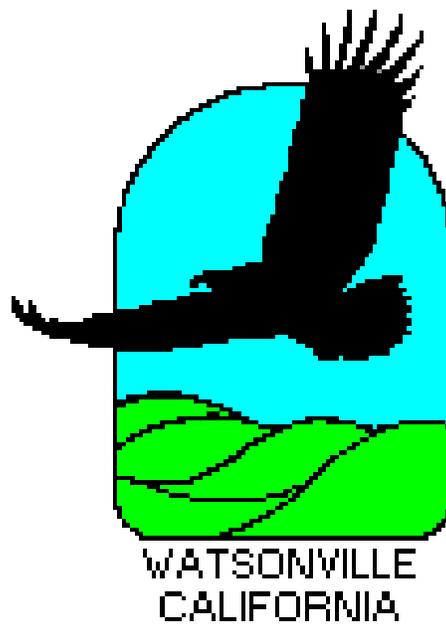
# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Prepared by the Finance Department  
Marc Pimentel, Administrative Services Director



This Page Left Intentionally Blank



**CITY OF WATSONVILLE, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ending June 30, 2010**

TABLE OF CONTENTS

**I. INTRODUCTORY SECTION:**

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

**II. FINANCIAL SECTION:**

Independent Auditors' Report .....	17
Management's Discussion and Analysis .....	19
Basis Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	32
Statement of Activities .....	35
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	36
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	37
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	39
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund .....	40
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Impact Fees Fund .....	41
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Low Income Housing Set Aside Fund .....	42
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Redevelopment and Housing Grants Fund .....	43
Statement of Net Assets - Proprietary Funds .....	44
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds .....	45
Statement of Cash Flows - Proprietary Funds .....	46
Notes to Financial Statements .....	47

**CITY OF WATSONVILLE, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ending June 30, 2010**

TABLE OF CONTENTS (Continued)

Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds .....	92
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds .....	94
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual:	
Gas Tax and Narcotics Assets Seizure Funds .....	96
Business Development and Rental Rehabilitation Grants Funds .....	97
Library and Measure E Sales Tax Funds .....	98
Parks Development and Retirement Tax Funds .....	99
Redevelopment and Parking Garage Funds .....	100
Business Booster Loan Program and Abandoned Vehicle Funds .....	101
Inclusionary Housing Fund .....	102
Debt Service Funds .....	103
Capital Assets Used in the Operations of Government Funds:	
Comparative Schedule by Source .....	104
Schedule by Function and Activity .....	105
Schedule of Changes by Function and Activity .....	106

**III. STATISTICAL SECTION (Unaudited):**

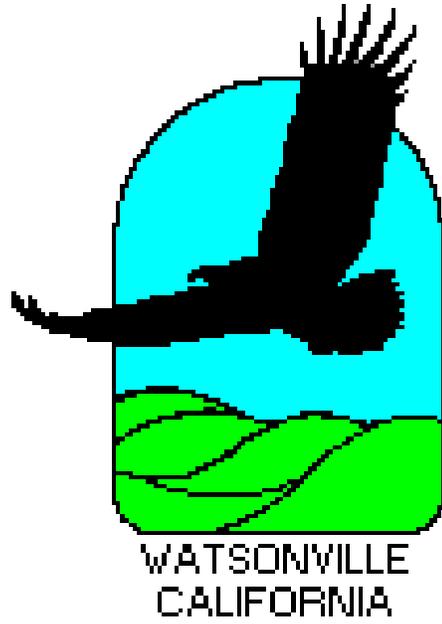
Net Assets By Component - Last Nine Fiscal Years .....	108
Changes In Net Assets - Last Nine Fiscal Years . . . . .	109
Governmental Activities Tax Revenues By Source - Last Nine Fiscal Years .....	
Fund Balances of Governmental Funds - Last Ten Fiscal Years .....	111
Fund Balances of Governmental Funds - Last Ten Fiscal Years .....	112
General Governmental Tax Revenues By Source - Last Ten Fiscal Years..	113
Assessed Value and Estimated Actual Value of Taxable Property .....	114
Property Tax Rates - Direct and Overlapping - Last Ten Years .....	115
Principal Property Taxpayers .....	116
Property Tax Collection .....	117
Ratio of Outstanding Debt By Type - Last Ten Fiscal Years .....	118
Ratio of Net General Obligation Debt Outstanding - Last Ten Fiscal Years.	119
Legal Debt Margin Information - Last Ten Fiscal Years .....	120
Computation of Direct and Overlapping Bonded Debt .....	121
Historical and Projected Library Special Sales Tax Revenue .....	122
Library Special Revenue Certificates of Participation – Debt Service Coverage .....	123 124

**CITY OF WATSONVILLE, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ending June 30, 2010**

TABLE OF CONTENTS (Continued)

Water Revenue Bond Coverage - Last Ten Fiscal Years . . . . .	125
Estimated Water Revenue Bond Coverage - Next Five Fiscal Years . . . . .	126
Ten Largest Customers and Percentage of Total Water Revenues . . . . .	127
Water Service Accounts - Last Ten Calendar Years . . . . .	128
Service Area Water Deliveries - Last Ten Calendar Years . . . . .	129
Demographic and Economic Statistics - Last Ten Fiscal Years . . . . .	130
Principal Employers – Current Fiscal Year and Nine Years Ago . . . . .	131
Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years . . . . .	132
Operating Indicators by Function - Last Ten Fiscal Years . . . . .	133
Capital Assets Statistics by Function - Last Ten Fiscal Years . . . . .	134

This Page Left Intentionally Blank



# **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, 2010

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, 2010.

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, 2010, 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, 2010, 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, 2010.

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. Later, Watsonville became a major processing center with producers such as Martinelli's Sparkling Apple Cider becoming a major employer in the community. More recently, the agricultural base has shifted 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. Santa Cruz County consistently is ranked as one of the most expensive places to live in the United States when housing costs are compared to median income. However, Watsonville has the most affordable housing in the County and has seen average prices drop substantially in the past year. Also, Watsonville tends to have a median household income 25% less than the County average. One of the major reasons for this situation relates to the high number of farm workers and service workers who live in the City. Incomes tend to be lower, leading to greater demands for affordable housing.

The ripple from the recession, the growing unemployment rate and declining housing market has hurt the Watsonville economy to a greater extent than the surrounding communities. Since its peak in 2006, the median sale price for a single family home has dropped 53% (from a revised \$649,500 to \$305,000). This rapid decline can be attributed to the extraordinary rise in foreclosure rates that Watsonville has experienced. According to data collected from RealtyTrac.com, the number of foreclosed properties began fiscal year 2007/08 at 220, reached its peak in August 2008 of 1,053 and at the time of this report has been steadily declining to 662 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 these sales can be attributed to short sales from foreclosures indicating that traditional home values may still be unsteady. Preliminary estimated for Calendar 2010 sales show a drop to 287 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 for fiscal year 2009/10 jumped to 25.5% for Watsonville and 12.5% for the County as a whole. Watsonville's rate has increased with the series of business closures that has occurred in the last few years that included Watsonville's second largest employer Birds Eye Foods, Inc, its seventh largest employer Indalex and its downtown retail anchor Gottschalks.

In addition to the housing and unemployment trends, certain segments of the General Fund's revenues 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 an average annual growth rate of 11.6% between 2001/02 and 2006/07. For 2007/08, receipts dropped 5.7% due to a local revenue measure that reallocated a portion of

property tax receipts into sales tax. The first true recession impact was felt in 2008/09 when total receipts dropped 7.7% followed by a 11.6% drop in 2009/10. Projections for 2010/11 collections were expected to decline by 3.5% without year projections less than a 1% decline.

Sales Tax revenue had been a relatively stable revenue source prior to the recession but has since been declining steadily. Total Sales Tax collections (modified accrual) experienced an average annual growth rate of 7.0% between 2001/02 and 2006/07. For 2007/08, collections dropped 4.5% after adjusting out the sales tax increase from a local revenue measure mentioned above. This annual decline was followed by declines of 11.5% and 7.0% in 2008/09 and 2009/10 respectively. Our projections for 2010/11 include an additional 2.0% decline.

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.

The overall outlook for the coming fiscal year is of continued revenue declines throughout the City's various funds and specific to property related revenue resources.

**Long-term financial planning.** The City's revenues as a whole appear to be stabilizing following a several years of declines as the national economy emerges from the Great Recession. Property Tax and Sales Tax projections indicate that the decline due to the recessions may reach bottom during 2010/11 with a slight improvement for 2011/12.

Locally, the large quantity of current and potential home foreclosures and, in turn high unemployment rates (averaged 25.5% during 2009/10) will continue to suppress revenue growth lower than neighboring communities.

Property tax within the City will remain with little to no growth. There stills remain a large inventory of housing available as our area continues to maintain a high number of homes in foreclosure or under threat of foreclosure. For December 2010, Realtytrac reported that there were 516 homes in the "Watsonville" area in foreclosure and 146 in pre-foreclosure. There appears to be a small increase in the median sales price for Watsonville's single family homes and townhomes/condo's according to local realty data sources. Calendar year 2010 median sales figures show a 8.3% increase over 2009. However, this was following year over year declines of 10.8%, 42.3% and 19.1% for 2007, 2008 & 2009 respectively. It will take several years of median sales price increases combined with strong quantity of home sales to produce a sizable increase in the base assessed valuation. For Calendar 2010, the homes sold represent under 2.5% of total homes within the City. In tandem, the State of California has declared its 2011/12 base assessed valuation increase to be only 0.753% (well under the 2% annual cap on assessed value growth).

Sales tax collections are projected to improve slightly for 2011/12 and 2012/13 as vacant retail space within the City is filled and if the trend of small but positive local consumer spending continues. There will still be significant pressures on the City's sales tax base from competition in surrounding communities and the City's higher unemployment rates.

In line with the pressures on disposable income, vehicle license fees will remain low or with a slight decline as vehicle sales within the City are projected to remain low. Utility user taxes could also continue into its fourth year of smaller decreases as homes are left vacant due to foreclosures. 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 \$25+ billion deficit projected through 2011/12.

For the 2010/11 fiscal year, under the City Council's direction, management built a strategy to balance the City's Budget through the following major objectives:

1. Meet with and agree to 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 \$1.49 million projected General Fund deficit for 2010/11 was eliminated through major employee concessions, elimination of all General Fund capital projects and using other measures from above. More details about these reductions can be found in 2010/11 Budget Staff Reports presented to the City Council on May 25, 2010 and June 10, 2010.

As referenced already, California's currently projected \$25 billion deficit through fiscal year 2011/12 could result in substantial takeaways from the City of Watsonville. City funding sources for public safety and economic development programs are likely to be negatively impacted as the State develops specific legislative proposals to balance its long term structural operating deficit. The State's new governor Jerry Brown will be considering proposals to move services from the State level to the local level and to curtail Redevelopment Agency projects and spending.

Fortunately, the passage of proposition 1A in November 2004 and Proposition 22 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 during 2009/10 and 2010/11 into the Supplemental Education Revenue Augmentation Fund to offset State costs for schools. Proposition 22 effectively restricts 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 during a 10-year period (through 2019).

The City continues to actively seek out and plan for opportunities to spur local development and economic growth. During 2009/10 the City released a new business marketing campaign 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, and is supporting efforts to fill vacant retail space.

The City's Water Enterprise Fund completed a water recycling facility and operations center to ensure the viability of coastal farming by providing an alternative and new water source to lessen the impact of salt water intrusion in the area's coastal wells. The project was built through a partnership with the Pajaro Valley Water Management Agency (PVWMA). 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 the City's two main roadway are currently underway with expected completion for Green Valley Road during 2010/11 and Freedom Blvd in 2011/12.

Near term 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 completing a Specific Plan 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, 2009. This was the tenth 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.

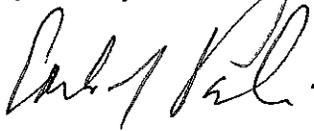
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the Certificate of Achievement Program's requirements and we are

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, Alex Bejar, Marisa Bermudez, Rex Boyes, Veronica Carrillo, Erick Celaya, 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,

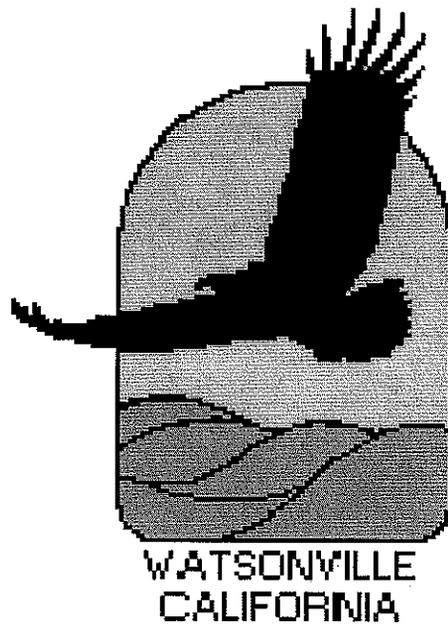


Carlos J. Palacios  
City Manager



Marc Pimentel  
Administrative Services Director

This Page Left Intentionally Blank



# 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, 2009

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.



President

Executive Director

# **City of Watsonville, California**

## **Officers and Officials**

For the Fiscal Year Ending June 30, 2010

### **City Council:**

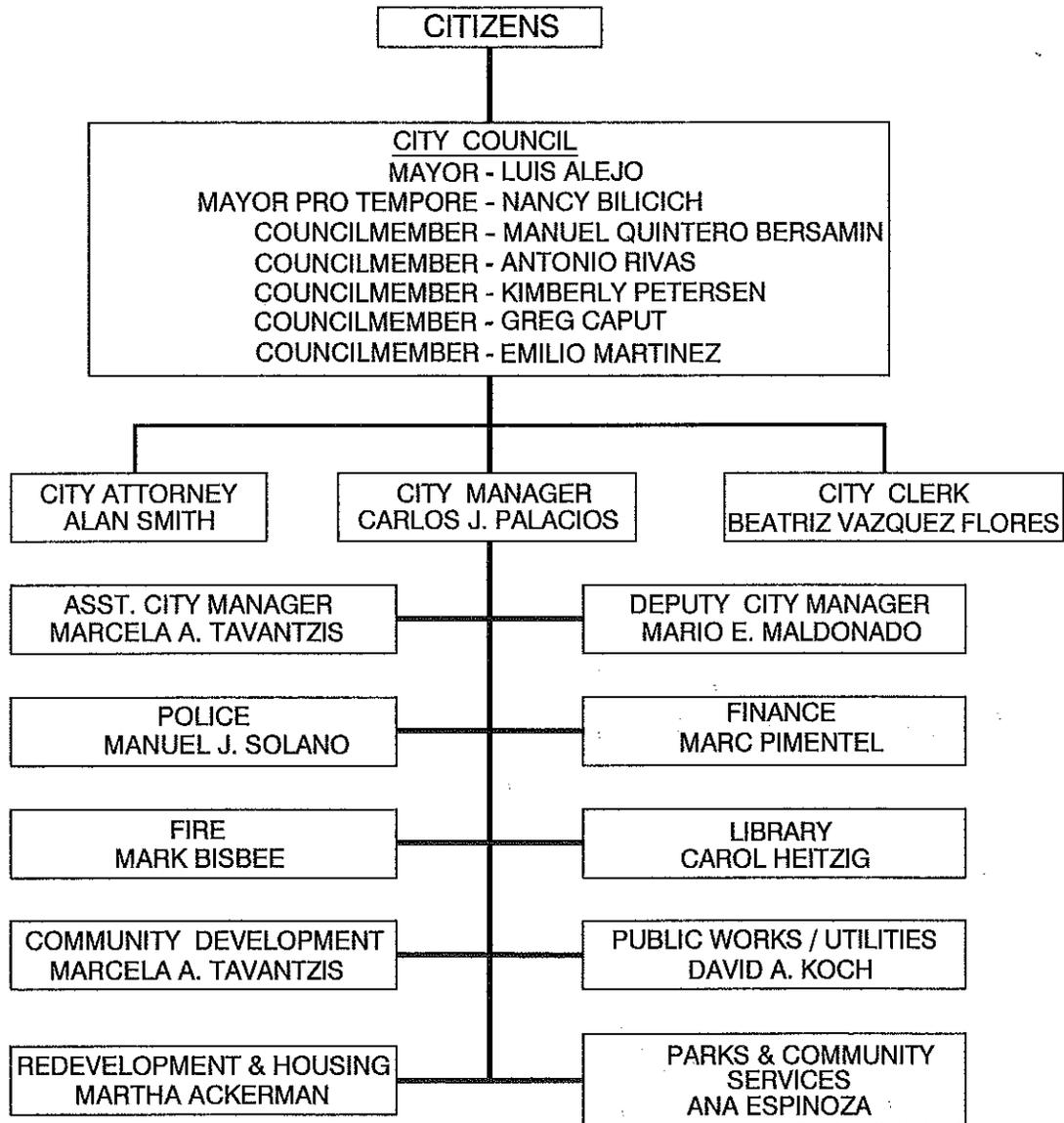
Mayor – Luis A. Alejo  
Mayor Pro Tempore – Nancy Bilicich  
Council Member – Manuel Quintero Bersamin  
Council Member – Antonio Rivas  
Council Member – Greg Caput  
Council Member – Emilio Martinez  
Council Member – Kimberely Petersen

### **City Officials:**

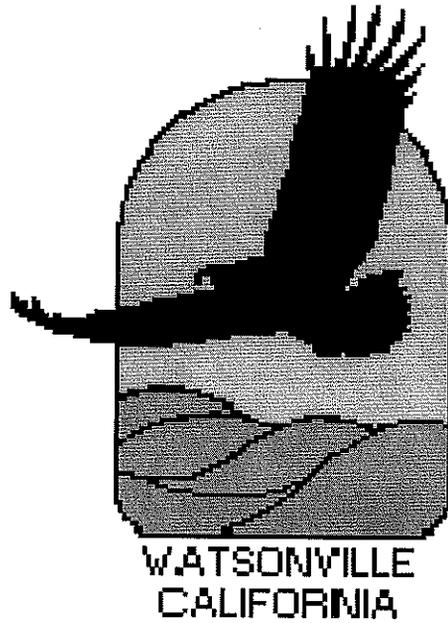
City Manager – Carlos J. Palacios  
Assistant City Manager – Marcela A. Tavantzis  
Deputy City Manager – Mario E. Maldonado  
City Clerk – Beatriz Vazquez Flores  
Fire Chief – Mark Bisbee  
Police Chief – Manuel J. Solano  
Public Works and Utilities Director – David A. Koch  
Administrative Services 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 2009 - 2010

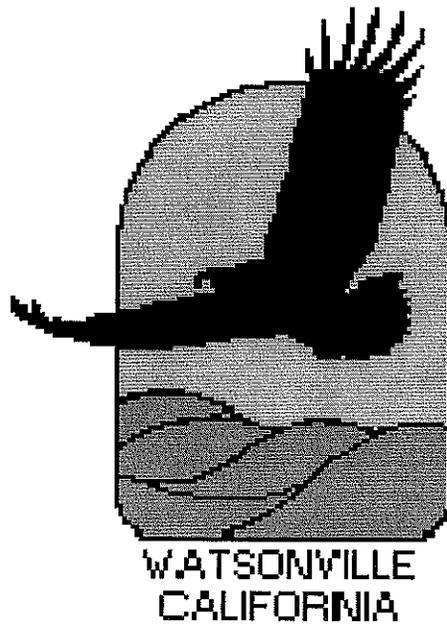


This Page Left Intentionally Blank



# Financial Section

This Page Left Intentionally Blank





MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**  
RONALD A LEVY, CPA  
CRIAG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

802 EAST MAIN  
SANTA MARIA, CA 93454  
TEL: 805.925.2579  
FAX: 805.925.2147  
www.mlhcpas.com

## 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, 2010, 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, 2010, 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 Redevelopment and Housing Grants Fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 5 of the notes to basic financial statements effective July 1, 2009, the City of Watsonville adopted Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

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.

Our audit was made for the purpose of forming opinions on the basic financial statements of the City of Watsonville, taken as a whole. The combining and individual fund 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. Such information has been subjected to the auditing procedures applied in our audit of the basic statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2010, on our consideration of the City of Watsonville's internal control over financial reporting and 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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The introductory section and statistical section listed in the table of contents were not audited by us, has 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 AND HARTZHEIM LLP

*Moss, Levy & Hartzheim LLP*

December 13, 2010

## **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, 2010. 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 \$263,371. Of this amount, \$46,557 (unrestricted net assets) may be used to meet the government's obligations to citizens and creditors.
- The government's total restated net assets decreased by \$6,624. Investment in capital assets, net of related debt increased by \$1,477, restricted funds increased by \$7,854 and unrestricted decreased by \$16,699. The major reasons for the decrease in unrestricted funds was the decline of taxes, investment earnings, and charges for services throughout the City's funds.
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balances of \$20,047, a decrease of \$5,543 in comparison with the prior fiscal year's restated balances. Approximately 54% of this amount, \$10,834 is reserved for a specific purpose. Another 46% of this amount, \$9,214 is available for spending at the government's discretion (unreserved) within certain restrictions (such as \$4,559 restricted for "Low Income" housing).

### **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 106 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 \$263,371 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net assets (70%) 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, 2010**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Current and other assets	55,528	61,086	54,633	61,395	110,161	122,481
Capital assets	133,587	137,320	107,232	104,769	240,819	242,089
Total Assets	189,115	198,406	161,865	166,164	350,980	364,570
Long-term liabilities outstanding	30,218	29,225	42,784	42,047	73,002	71,272
Other Liabilities	10,790	15,408	3,817	7,151	14,607	22,559
Total Liabilities	41,008	44,633	46,601	49,198	87,609	93,831
Net Assets:						
Invested in capital assets, net of related debt	114,050	116,232	71,443	67,784	185,493	184,016
Restricted	31,321	23,467	-	-	31,321	23,467
Unrestricted	2,736	14,074	43,821	49,182	46,557	63,256
Total Net Assets	148,107	153,773	115,264	116,966	263,371	270,739

An additional portion of the City of Watsonville's net assets (12%) 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 \$46,557 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.

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 decreased by \$6,624 during the current fiscal year. The government's governmental activities had a decrease in restated net assets of \$5,095. The government's governmental investment in capital assets net of related debt had a decrease of \$2,182. 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 decreased by \$1,529. The decrease in business-type activities was from the Water, Sewer and Solid Waste Funds. Most of the decrease was from charges for services decline of \$2,777. A portion of the loss was offset by decreases in operation costs, but the City Council still had to approve rate increases for the three utility funds during the fiscal year. The loss of revenue was from home foreclosures and business closures.

**City of Watsonville**  
**Change in Net Assets**  
**For the Fiscal Year Ending June 30, 2010**  
(in thousands)

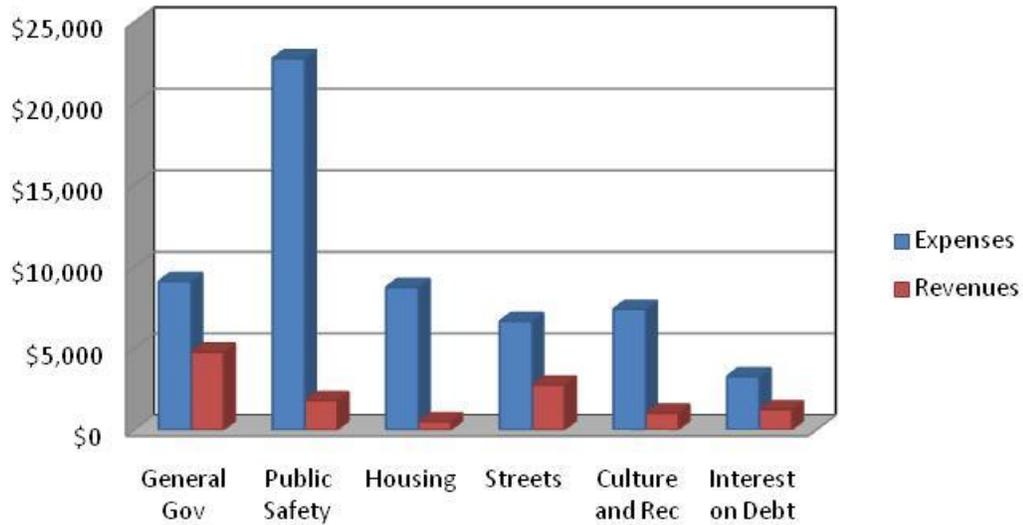
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	10,860	12,850	26,593	29,370	37,453	42,220
Operating grants and contributions	5,311	5,220	1,046	669	6,357	5,889
Capital grants and contributions	2,732	1,737	2,018	1,393	4,750	3,130
General Revenues						
Property taxes	18,082	20,759	-	-	18,082	20,759
Other taxes	14,579	14,931	-	-	14,579	14,931
Others	1,245	1,126	455	3,780	1,700	4,906
Total Revenues	52,809	56,623	30,112	35,212	82,921	91,835
Expenses:						
General government	9,100	10,777	-	-	9,100	10,777
Public safety	22,752	24,161	-	-	22,752	24,161
Housing	8,734	1,413	-	-	8,734	1,413
Streets	6,656	4,686	-	-	6,656	4,686
Culture and recreation	7,393	5,509	-	-	7,393	5,509
Interest on debt	3,269	3,384	-	-	3,269	3,384
Water	-	-	11,482	13,871	11,482	13,871
Sewer	-	-	9,335	8,886	9,335	8,886
Solid waste	-	-	8,460	8,873	8,460	8,873
Airport	-	-	2,364	2,863	2,364	2,863
Total Expenses	57,904	49,930	31,641	34,493	89,545	84,423
Change in net assets	(5,095)	6,693	(1,529)	719	(6,624)	7,412
Net assets - beginning	153,773	146,776	116,966	116,348	270,739	263,124
Prior year adjustments	(571)	304	(173)	(101)	(744)	203
Net assets - beginning restated	153,202	147,080	116,793	116,247	269,995	263,327
Net assets ending	148,107	153,773	115,264	116,966	263,371	270,739

**Governmental Activities.** Governmental activities decreased the City of Watsonville's restated net assets by \$5,095, thereby accounting for 77% of the total loss in the net assets of the City of Watsonville. Key elements of this decline are as follows:

- Overall governmental revenues decreased by \$3,814, 7% during the fiscal year. The decrease in revenue was from a decline in taxes, investment earnings and charges for services.
- Housing expenses increased by \$7,321 during the fiscal year. The majority of this increase was within the following funds: Low Income Housing Set Aside Fund, and Redevelopment Fund.
- Operating grants increased by \$91 during the current year. This increase was mainly for the start of the COPS (Community Oriented Policing Services) Hiring Recovery Program during the current fiscal year. The grant funds the hire of three new police officers.

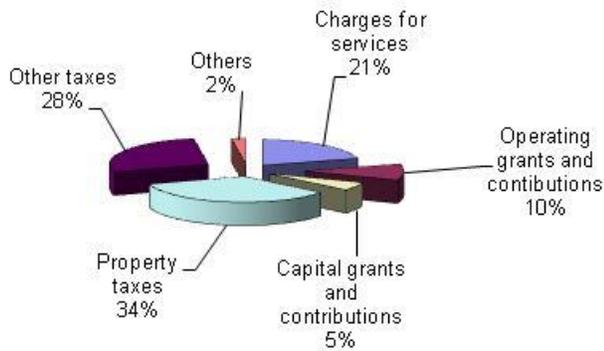
# Expenses and Program Revenues

## Governmental Activities



# Revenues by Source

## Governmental Activities



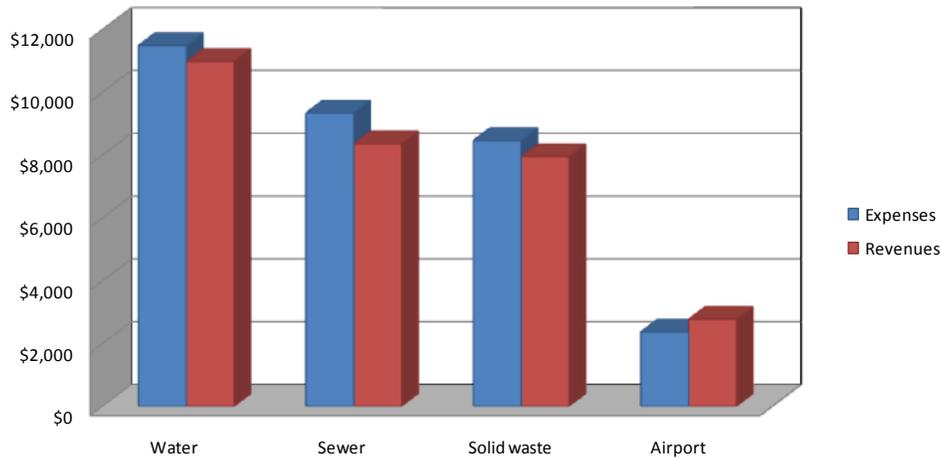
Expenses for general government, public safety, and interest on debt decreased during the fiscal year. General government and public safety operations decreased due to decreased staffing costs related to salaries. Interest on debt decreased with the decrease in interest and fiscal charges for the City of Watsonville’s Redevelopment Agency’s debt.

Expenses for housing, streets, and culture and recreation increased during the fiscal year. Housing operations increased as several housing projects were funded by the Redevelopment Agency. Streets operations increased due to several major projects in the gas tax fund. Culture and recreation increased due to depreciation expense on the new library building.

**Business-type activities.** Business-type activities decreased the City of Watsonville’s restated net assets by \$1,529, accounting for 23% of the decrease in the government’s net assets. Key elements of this decrease are as follows:

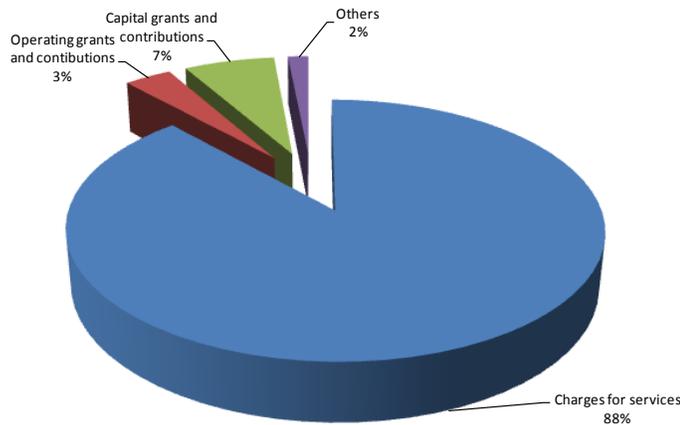
# Expenses and Program Revenues

## Business-type Activities



- Charges for services for business-type activities decreased by 9%. The Water Fund had the most significant decrease in charges for services. This was due to the City recording a note receivable for the recycled water project being built by the City for Pajaro Valley Management Agency in the prior fiscal year.
- Airport's charges for services decreased by \$182, 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 Sewer Fund increased by \$609, due mainly from the Water Recycling Operation Division operating for a full fiscal year for the first time.
- Operating costs in the Water Fund decreased by \$481, due mainly from several non capitalized projects that were completed in fiscal year 2008/09.
- 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, unreserved fund balances may serve as a useful measure of a government's net resources available for spending 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 \$20,047, a decrease of \$5,543 in comparison with the prior restated fund balances. Almost half of this total amount \$9,214 constitutes unreserved fund balances, which are available for spending at the government's discretion. The largest portion of the reserved fund balances is for debt service \$6,394. Most of this balance is in reserve funds held by trustee for the redevelopment agency tax allocation bonds. The remainder of fund balances is reserved to indicate that it is not available for new spending because it has already been committed; 1) liquidate contracts and purchase orders encumbered in the prior year \$589; 2) reserved by charter \$2,450; 3) reserved for land held for resale \$854; and 4) for a variety of other restricted purposes \$546.

The General Fund is the chief operating fund of the City of Watsonville. At the end of the current fiscal year, the charter reserve of the General Fund was \$2,450. As a measure of the General Fund's liquidity, it may be useful to compare both the charter reserve and total fund balance to total fund expenditures. Charter reserve fund balance is 6 percent of total general fund expenditures, while total fund balance represents 7.8 percent of the same amount.

The restated fund balance of the City of Watsonville's General Fund decreased by \$1,086 during the current fiscal year due to the following key factors:

- The General Fund total revenue collection was \$145 less than budgeted revenues, with taxes;

intergovernmental; and charges for services revenues experiencing the largest losses (\$387, \$319, and \$393 respectively).

- Public safety exceeded its operating budget by \$1,418. Most of this was due to overtime in both police and fire departments exceeding their budgeted amounts as they were both understaffed during the fiscal year.

The Impact Fees Fund has a negative fund balance of \$87, a decrease of \$410 for the fiscal year. This decrease was due expending impact fees funds collected in prior years.

Low Income Housing Set Aside Fund has a fund balance of \$4,559, a decrease of \$1,306 for the fiscal year. The decrease was from several large low income housing projects being completed during the fiscal year.

The Redevelopment and Housing Grants Fund has a negative balance of \$955, an increase of \$137 from the restated beginning fund balance. This increase is the result of a timing difference from the time of expending grant funds and receiving reimbursement for those funds.

The government's Debt Service Fund had a fund balance of \$894, an increase of \$30 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 \$5,500, a decrease of \$1,731 during the fiscal year. The decrease was due to tax increment revenue being \$2,562 less than expected for the fiscal year.

**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>	<u>Change in</u> <u>Net Assets</u>
	\$	\$
Water	61,621	(450)
Sewer	45,911	(972)
Solid Waste	2,409	(513)
Airport	5,322	406

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 budget amendments during the current fiscal year. The City increase both revenues and expenditures for \$231 in new grant funds and \$68 for a self supporting recreation program. The fund was also reduced by \$274 of midyear budget reductions.

Taxes were (\$387) under budget. This decrease in tax revenue was due to real estate taxes, special sale tax, personal property and transient occupancy tax all being below budgeted amounts. Charges for services were under budget by \$393, with most of that being building

permits and inspection fees less than expected. Miscellaneous revenues were over budget by \$1,027, due to a one time sale of parcel of land.

## **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, 2010 was \$240,819 (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 2 percent from last fiscal year (1.9 percent decrease in governmental assets and 3.6 percent decrease in business-type assets). Major capital asset events during the current fiscal year included the following:

- Completion of the Water Recycling Treatment Facility which is made up of approximately 6 acres of various treatment processes and support infrastructure.
- Completion of the Water Resource Center building.
- Completion of a variety of street widening and expansion projects, of phase II of the Franich Park Improvement project, of the Struve Slough Bridge, and Vista Montana and Seaview Ranch Wells.

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 61 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 \$73,002. Of this amount, \$61,371 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds) less bond issuance costs of \$1,372, and \$773 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 \$1,926, debt payable of \$547, postretirement liability of \$1,892 and \$3,017 for capital leases. Business type activities have \$1,400 in capital leases payable, postretirement liability of \$692 and landfill closure liability of \$2,755.

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 \$95. 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 \$451.

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.

The 1998 water revenue bonds for the business-type activities are insured by MBIA Insurance Corporation (Insurer). 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 and Fitch IBCA, Inc. both rated the claims paying ability of the Insurer as AAA. On June 5, 2008 Standard & Poor's rating Service downgraded its rating to AA; on June 19, 2008 Moody's Investors Services downgraded its rating to A2 and on June 26, 2008 Fitch Ratings withdrew its rating on the insured.

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 \$96,282 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 79 of this report.

### **Economic Factors and Next Year's Budget**

- Loss or reallocation of revenues to local governments due to the State of California fiscal crisis. Proposition 1A approved by the voters in November 2004 will require voter approval prior to the "taking" of local government revenues or declaration by the Governor and 2/3 approval by the legislature.
- Loss of Federal and State funding for Police Officers.
- Increased demand on City resources for the development of 500 new homes.
- Limited investment opportunities for idle cash reserves.
- Continued loss of sales tax revenues from the slowed economy and possibility of more closures of large retailers in the next fiscal year.
- 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 2010/11 fiscal year.

The City also closed down all City services (except of basic health and safety services) for three weeks during the 2010 holiday period to help close the budget gap due to continued declining revenues in the 2010/11 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 2010-11.

### **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, 2010**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>			
Cash and investments	18,883,467	10,923,469	29,806,936
Cash and investments with fiscal agent	2,710,526	3,548,287	6,258,813
Receivables:			
Interest	799,096	2,050	801,146
Taxes	2,476,715	-	2,476,715
Assessments	773,000	-	773,000
Accounts	1,056,941	9,963,863	11,020,804
Intergovernmental	3,149,568	139,585	3,289,153
Internal balances	(749,187)	749,187	-
Loans receivable	25,488,423	28,998,476	54,486,899
Inventories	23,121	308,080	331,201
Deposits	62,000	-	62,000
Land held for resale	854,280	-	854,280
Capital assets (net of depreciation, where applicable)			
Land	14,424,456	22,663,599	37,088,055
Buildings and Improvements	110,034,982	60,171,805	170,206,787
Machinery	3,770,616	8,544,821	12,315,437
Infrastructure	5,155,644	14,003,700	19,159,344
Construction in progress	201,023	1,847,832	2,048,855
<b>Total Assets</b>	<u>189,114,671</u>	<u>161,864,754</u>	<u>350,979,425</u>

See accompanying notes to financial statements

Continued

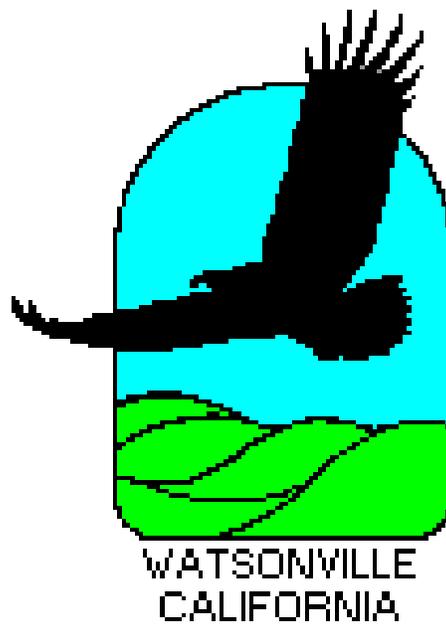
**CITY OF WATSONVILLE, CALIFORNIA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
<b>LIABILITIES</b>			
Accounts payable	1,082,106	1,730,682	2,812,788
Accrued personnel costs	3,387,741	1,434,946	4,822,687
Insurance claims payable	4,868,170	-	4,868,170
Interest payable	413,362	206,354	619,716
Retentions payable	87,148	149,026	236,174
Unearned revenue	21,480	2,945	24,425
Arbitrage rebate	-	283,907	283,907
Deposits	930,309	8,771	939,080
Noncurrent liabilities			
Due within one year	2,064,466	2,092,020	4,156,486
Due in more than one year (Net of capitalized discounts and issue costs)	28,153,094	40,692,248	68,845,342
<b>Total Liabilities</b>	<b>41,007,876</b>	<b>46,600,899</b>	<b>87,608,775</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	-	71,442,953	71,442,953
Restricted for:			
Debt service	6,458,734	-	6,458,734
Low income housing set aside	14,101,559	-	14,101,559
Street	4,258,919	-	4,258,919
Inclusionary housing	3,685,804	-	3,685,804
Library	2,814,673	-	2,814,673
Unrestricted	116,787,106	43,820,902	160,608,008
<b>Total Net Assets</b>	<b>148,106,795</b>	<b>115,263,855</b>	<b>263,370,650</b>

See accompanying notes to financial statements

Concluded

This Page Left Intentionally Blank



**CITY OF WATSONVILLE, CALIFORNIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government:	\$	\$	\$	\$	\$	\$	\$
Governmental activities:							
General government	9,099,625	4,768,496	182,908	-	(4,148,221)	-	(4,148,221)
Public safety	22,752,011	1,793,290	829,570	-	(20,129,151)	-	(20,129,151)
Housing	8,733,738	512,011	3,148,708	-	(5,073,019)	-	(5,073,019)
Streets	6,656,249	2,756,531	330,320	2,731,696	(837,702)	-	(837,702)
Culture and recreation	7,393,338	1,029,434	819,843	-	(5,544,061)	-	(5,544,061)
Interest on long term debt	3,269,312	-	-	-	(3,269,312)	-	(3,269,312)
Total government activities	<u>57,904,273</u>	<u>10,859,762</u>	<u>5,311,349</u>	<u>2,731,696</u>	<u>(39,001,466)</u>	<u>-</u>	<u>(39,001,466)</u>
Business-type activities							
Water	11,482,580	9,088,575	56,222	1,676,691	-	(661,092)	(661,092)
Sewer	9,335,331	7,557,429	618,788	-	-	(1,159,114)	(1,159,114)
Solid Waste	8,459,623	7,889,931	-	-	-	(569,692)	(569,692)
Airport	2,363,902	2,057,412	712,217	-	-	405,727	405,727
Total business-type activities	<u>31,641,436</u>	<u>26,593,347</u>	<u>1,387,227</u>	<u>1,676,691</u>	<u>-</u>	<u>(1,984,171)</u>	<u>(1,984,171)</u>
Total primary government	<u>89,545,709</u>	<u>37,453,109</u>	<u>6,698,576</u>	<u>4,408,387</u>	<u>(39,001,466)</u>	<u>(1,984,171)</u>	<u>(40,985,637)</u>
General revenues:							
Property taxes					18,081,585	-	18,081,585
Sales taxes					9,206,869	-	9,206,869
Franchise taxes					400,632	-	400,632
Motor/vehicle taxes					1,299,310	-	1,299,310
Utility users taxes					2,711,359	-	2,711,359
Other taxes					960,715	-	960,715
Unrestricted investment earnings					1,245,406	454,845	1,700,251
Total general revenues					<u>33,905,876</u>	<u>454,845</u>	<u>34,360,721</u>
Change in net assets					<u>(5,095,590)</u>	<u>(1,529,326)</u>	<u>(6,624,916)</u>
Net assets - beginning					<u>153,773,207</u>	<u>116,965,640</u>	<u>270,738,847</u>
Prior period adjustments					<u>(570,822)</u>	<u>(172,459)</u>	<u>(743,281)</u>
Net assets - beginning, restated					<u>153,202,385</u>	<u>116,793,181</u>	<u>269,995,566</u>
Net assets - ending					<u>148,106,795</u>	<u>115,263,855</u>	<u>263,370,650</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 JUNE 30, 2010

	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				
\$	\$	\$	\$	\$	\$	\$	\$	
<b>ASSETS:</b>								
Cash and investments	1,902,722	-	3,610,597	-	103,412	3,356,014	8,926,188	17,898,933
Cash and investments with fiscal agent	-	-	-	-	784,700	1,925,826	-	2,710,526
Receivables:								
Interest	149,532	-	400,884	145,081	-	-	103,599	799,096
Taxes	1,759,880	-	-	-	6,265	263,504	447,066	2,476,715
Deferred assessments	-	-	-	-	773,000	-	-	773,000
Accounts	504,514	17,651	-	-	-	-	488,033	1,010,198
Intergovernmental	463,236	1,658,305	-	486,997	-	-	541,030	3,149,568
Due from other funds	1,776,461	-	-	-	-	-	1,292,239	3,068,700
Advances receivable	26,556	106,665	250,000	-	-	-	139,485	522,706
Loans receivable	260,731	-	9,141,454	14,044,739	-	-	2,041,499	25,488,423
Inventories	23,121	-	-	-	-	-	-	23,121
Land held for resale	-	-	854,280	-	-	-	-	854,280
<b>Total Assets</b>	<b>6,866,753</b>	<b>1,782,621</b>	<b>14,257,215</b>	<b>14,676,817</b>	<b>1,667,377</b>	<b>5,545,344</b>	<b>13,979,139</b>	<b>58,775,266</b>
<b>LIABILITIES AND FUND BALANCES:</b>								
Liabilities:								
Accounts payable	443,947	104,199	863	30,108	-	45,308	128,512	752,937
Accrued personnel costs	3,119,920	3,102	3,949	12,506	-	-	132,852	3,272,329
Retentions payable	-	-	-	1,858	-	-	85,290	87,148
Due to other funds	-	103,995	-	1,188,244	-	-	1,749,461	3,041,700
Advances payable	-	-	150,373	-	-	-	898,520	1,048,893
Deferred revenue	514,349	1,658,306	9,542,338	14,398,851	773,000	-	2,686,128	29,572,972
Unearned revenue	19,156	-	-	-	-	-	2,324	21,480
Deposits	872,811	-	471	-	-	-	57,027	930,309
<b>Total Liabilities</b>	<b>4,970,183</b>	<b>1,869,602</b>	<b>9,697,994</b>	<b>15,631,567</b>	<b>773,000</b>	<b>45,308</b>	<b>5,740,114</b>	<b>38,727,768</b>
Fund Balances:								
Reserved for:								
Encumbrances	248,714	-	17,544	-	-	-	323,039	589,297
Charter	2,450,000	-	-	-	-	-	-	2,450,000
Inventories	23,121	-	-	-	-	-	-	23,121
Advances	26,556	106,665	250,000	-	-	-	139,485	522,706
Land held for resale	-	-	854,280	-	-	-	-	854,280
Debt service	-	-	-	-	894,377	5,500,036	-	6,394,413
Unreserved reported in:								
General fund	(851,821)	-	-	-	-	-	-	(851,821)
Special revenue funds	-	(193,646)	3,437,397	(954,750)	-	-	7,776,501	10,065,502
<b>Total Fund Balances</b>	<b>1,896,570</b>	<b>(86,981)</b>	<b>4,559,221</b>	<b>(954,750)</b>	<b>894,377</b>	<b>5,500,036</b>	<b>8,239,025</b>	<b>20,047,498</b>
<b>Total Liabilities and Fund Balances</b>	<b>6,866,753</b>	<b>1,782,621</b>	<b>14,257,215</b>	<b>14,676,817</b>	<b>1,667,377</b>	<b>5,545,344</b>	<b>13,979,139</b>	<b>58,775,266</b>

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 30,2010**

	<u>\$</u>
Amounts Reported For Governmental Activities To The Statement Of Net Assets Are Different Because:	
Fund Balances Of Governmental Funds. (Page 36)	20,047,498
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	181,160,226
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(47,573,505)
Internal Service Fund Is Used By Management To Charge The Costs Of Insurances To Individual Funds. The Assets And Liabilities Of The Internal Service Fund Are Included In Governmental Activities In The Statement Of Net Assets.	(4,469,474)
Loans, Intergovernmental And Assessment Receivables Recorded As Deferred Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities.	29,572,972
Long-term Debt Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(30,685,064)
Bond Issuance Costs are Expensed In Year Of Issuance Therefore Not Reported In Governmental Funds.	467,504
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(413,362)
Net Assets Of Governmental Funds. (Page 33)	<u><u>148,106,795</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, 2010**

	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				
	\$	\$	\$	\$	\$	\$	\$	
<b>REVENUES:</b>								
Taxes	19,415,752	-	1,565,018	-	-	6,302,678	5,377,022	32,660,470
Licenses, permits, and fees	2,175,815	176,903	-	-	-	-	616,759	2,969,477
Intergovernmental	1,696,642	2,609	-	1,623,708	-	-	2,285,131	5,608,090
Charges for services	4,326,332	-	-	-	-	-	-	4,326,332
Fines	983,753	-	-	-	-	-	-	983,753
Interest	1,245,406	112,611	59,138	-	34,515	79,306	119,322	1,650,298
Special assessment	-	-	-	-	146,815	-	-	146,815
Miscellaneous	1,556,484	-	332,582	4,971	-	-	35,042	1,929,079
Total revenues	31,400,184	292,123	1,956,738	1,628,679	181,330	6,381,984	8,433,276	50,274,314
<b>EXPENDITURES:</b>								
Current:								
General government	6,158,855	-	-	-	-	-	1,330,010	7,488,865
Public safety	21,461,653	-	-	-	-	-	84,112	21,545,765
Housing	-	-	2,638,168	1,127,694	-	-	4,954,226	8,720,088
Streets	3,446,947	679,053	-	-	-	-	2,266,924	6,392,924
Culture and recreation	4,129,336	-	-	-	-	-	2,287,728	6,417,064
Debt service:								
Principal	-	-	-	-	1,116,392	876,952	-	1,993,344
Interest and fiscal charges	-	-	-	-	317,051	2,942,082	-	3,259,133
Total expenditures	35,196,791	679,053	2,638,168	1,127,694	1,433,443	3,819,034	10,923,000	55,817,183
Excess (deficiency) of revenues over (under) expenditures	(3,796,607)	(386,930)	(681,430)	500,985	(1,252,113)	2,562,950	(2,489,724)	(5,542,869)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	2,711,000	-	-	-	1,282,224	624,673	4,919,035	9,536,932
Transfers out	-	(23,140)	(624,673)	(363,834)	-	(4,919,035)	(3,606,250)	(9,536,932)
Total other financing sources (uses)	2,711,000	(23,140)	(624,673)	(363,834)	1,282,224	(4,294,362)	1,312,785	-
Net change in fund balances	(1,085,607)	(410,070)	(1,306,103)	137,151	30,111	(1,731,412)	(1,176,939)	(5,542,869)
Fund balances, July 1	2,820,710	299,949	6,539,371	(957,203)	887,406	7,231,448	9,398,436	26,220,117
Prior period adjustments	161,467	23,140	(674,047)	(134,698)	(23,140)	-	17,528	(629,750)
Fund balances, July 1, as restated	2,982,177	323,089	5,865,324	(1,091,901)	864,266	7,231,448	9,415,964	25,590,367
Fund balances, June 30	1,896,570	(86,981)	4,559,221	(954,750)	894,377	5,500,036	8,239,025	20,047,498

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, 2010**

	<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)	(5,542,869)
Governmental Funds Report Capital Outlay As Expenditures However, In The Statement Of Activities The Cost Of Those Assets Is 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.	(3,734,103)
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	2,534,368
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.	1,993,344
This Amount is the Bonds Issuance Costs	(34,489)
This Amount of Post Retirement Costs	(952,087)
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	615,935
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>24,311</u>
Change In Net Assets Of Governmental Funds. (Page 35)	<u><u>(5,095,590)</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, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$		
<b>REVENUES:</b>				
Taxes	19,803,000	19,803,000	19,415,752	(387,248)
Licenses, permits, and fees	2,350,532	2,350,532	2,175,815	(174,717)
Intergovernmental	1,784,298	2,015,398	1,696,642	(318,756)
Charges for services	4,719,655	4,719,655	4,326,332	(393,323)
Fines	802,000	802,000	983,753	181,753
Interest	1,324,860	1,324,860	1,245,406	(79,454)
Miscellaneous	529,383	529,383	1,556,484	1,027,101
<b>Total revenues</b>	<b>31,313,728</b>	<b>31,544,828</b>	<b>31,400,184</b>	<b>(144,644)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	5,909,602	5,826,697	6,158,855	(332,158)
Public safety	20,043,639	20,043,639	21,461,653	(1,418,014)
Streets	6,912,225	7,027,225	3,446,947	3,580,278
Culture and recreation	4,207,015	4,204,075	4,129,336	74,739
<b>Total expenditures</b>	<b>37,072,481</b>	<b>37,101,636</b>	<b>35,196,791</b>	<b>1,904,845</b>
Excess (deficiency) of revenues over (under) expenditures	(5,758,753)	(5,556,808)	(3,796,607)	1,760,201
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,634,000	2,711,000	2,711,000	-
<b>Total other financing sources (uses)</b>	<b>2,634,000</b>	<b>2,711,000</b>	<b>2,711,000</b>	<b>-</b>
Net change in fund balance	(3,124,753)	(2,845,808)	(1,085,607)	1,760,201
Fund balance, July 1	2,820,710	2,820,710	2,820,710	-
Prior period adjustments	-	-	161,467	161,467
Fund balance July 1, as restated	2,820,710	2,820,710	2,982,177	161,467
Fund balance, June 30	(304,043)	(25,098)	1,896,570	1,921,668

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, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
<b>REVENUES:</b>				
Licenses, permits, and fees	260,000	260,000	176,903	(83,097)
Intergovernmental	132,000	132,000	2,609	(129,391)
Interest	162,000	162,000	112,611	(49,389)
Total revenues	<u>554,000</u>	<u>554,000</u>	<u>292,123</u>	<u>(261,877)</u>
<b>EXPENDITURES:</b>				
	<u>4,276,657</u>	<u>4,276,657</u>	<u>679,053</u>	<u>3,597,604</u>
Total expenditures	<u>4,276,657</u>	<u>4,276,657</u>	<u>679,053</u>	<u>3,597,604</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(23,140)</u>	<u>(23,140)</u>	<u>(23,140)</u>	<u>-</u>
Total other financing sources (uses)	<u>(23,140)</u>	<u>(23,140)</u>	<u>(23,140)</u>	<u>-</u>
Net change in fund balance	<u>(3,745,797)</u>	<u>(3,745,797)</u>	<u>(410,070)</u>	<u>3,335,727</u>
Fund balance, July 1	299,949	299,949	299,949	-
Prior period adjustments	-	-	23,140	23,140
Fund balances, July 1, as restated	<u>299,949</u>	<u>299,949</u>	<u>323,089</u>	<u>23,140</u>
Fund balance, June 30	<u>(3,445,848)</u>	<u>(3,445,848)</u>	<u>(86,981)</u>	<u>3,358,867</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, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
<b>REVENUES:</b>				
Taxes	1,023,292	1,023,292	1,565,018	541,726
Interest	40,000	40,000	59,138	19,138
Miscellaneous	70,000	70,000	332,582	262,582
Total revenues	1,133,292	1,133,292	1,956,738	823,446
<b>EXPENDITURES:</b>				
Current:				
Housing	2,064,401	2,064,401	2,638,168	(573,767)
Total expenditures	2,064,401	2,064,401	2,638,168	(573,767)
Excess (deficiency) of revenues over (under) expenditures	(931,109)	(931,109)	(681,430)	249,679
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(624,673)	(624,673)	(624,673)	-
Total other financing sources (uses)	(624,673)	(624,673)	(624,673)	-
Net change in fund balance	(1,555,782)	(1,555,782)	(1,306,103)	249,679
Fund balance, July 1	6,539,371	6,539,371	6,539,371	-
Prior period adjustments	-	-	(674,047)	(674,047)
Fund balances, July 1, as restated	6,539,371	6,539,371	5,865,324	(674,047)
Fund balance, June 30	4,983,589	4,983,589	4,559,221	(424,368)

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, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES:	\$	\$	\$	\$
Intergovernmental	1,391,385	1,391,385	1,623,708	232,323
Interest	1,000	1,000	-	(1,000)
Miscellaneous	-	-	4,971	4,971
Total revenues	<u>1,392,385</u>	<u>1,392,385</u>	<u>1,628,679</u>	<u>236,294</u>
EXPENDITURES:				
Current:				
Housing	<u>2,302,931</u>	<u>2,302,931</u>	<u>1,127,694</u>	<u>1,175,237</u>
Total expenditures	<u>2,302,931</u>	<u>2,302,931</u>	<u>1,127,694</u>	<u>1,175,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(910,546)</u>	<u>(910,546)</u>	<u>500,985</u>	<u>1,411,531</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(373,302)</u>	<u>(373,302)</u>	<u>(363,834)</u>	<u>9,468</u>
Total other financing sources (uses)	<u>(373,302)</u>	<u>(373,302)</u>	<u>(363,834)</u>	<u>9,468</u>
Net change in fund balances	<u>(1,283,848)</u>	<u>(1,283,848)</u>	<u>137,151</u>	<u>1,420,999</u>
Fund balance, July 1	(957,203)	(957,203)	(957,203)	-
Prior period adjustments	-	-	(134,698)	(134,698)
Fund balances, July 1, as restated	<u>(957,203)</u>	<u>(957,203)</u>	<u>(1,091,901)</u>	<u>(134,698)</u>
Fund balance, June 30	<u>(2,241,051)</u>	<u>(2,241,051)</u>	<u>(954,750)</u>	<u>1,286,301</u>

See accompanying notes to financial statements

**CITY OF WATSONVILLE, CALIFORNIA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	Fund
	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and investments	1,850,203	3,171,942	5,900,174	1,150	10,923,469	984,534
Cash and investments with fiscal agent	3,318,710	95,100	134,477	-	3,548,287	-
<b>Receivables:</b>						
Interest	2,050	-	-	-	2,050	-
Accounts	7,610,853	1,586,855	659,471	106,684	9,963,863	46,743
Loans	-	236,464	-	-	236,464	-
Intergovernmental	-	-	-	139,585	139,585	-
Due from other funds	3,214,240	-	-	-	3,214,240	-
Deposits	-	-	-	-	-	62,000
Inventories	271,026	-	363	36,691	308,080	-
<b>Total Current Assets</b>	<b>16,267,082</b>	<b>5,090,361</b>	<b>6,694,485</b>	<b>284,110</b>	<b>28,336,038</b>	<b>1,093,277</b>
<b>Noncurrent Assets</b>						
Advances receivable	776,187	-	-	-	776,187	-
Loan receivable	27,345,000	1,417,012	-	-	28,762,012	-
<b>Capital assets:</b>						
Land and improvements	5,698,697	8,943,006	438,000	7,583,896	22,663,599	-
Buildings	36,961,208	29,417,748	4,107,495	8,791,900	79,278,351	-
Machinery and equipment	6,858,080	2,763,365	5,181,030	298,749	15,101,224	-
Infrastructure	12,806,085	38,024,887	1,019,969	1,941,125	53,792,066	-
Construction in progress	1,847,832	-	-	-	1,847,832	-
Accumulated depreciation	(15,062,931)	(34,900,852)	(6,799,904)	(8,687,628)	(65,451,315)	-
<b>Total Capital Assets (Net of accumulated depreciation)</b>	<b>49,108,971</b>	<b>44,248,154</b>	<b>3,946,590</b>	<b>9,928,042</b>	<b>107,231,757</b>	<b>-</b>
<b>Total Noncurrent Assets</b>	<b>77,230,158</b>	<b>45,665,166</b>	<b>3,946,590</b>	<b>9,928,042</b>	<b>136,769,956</b>	<b>-</b>
<b>Total Assets</b>	<b>93,497,240</b>	<b>50,755,527</b>	<b>10,641,075</b>	<b>10,212,152</b>	<b>165,105,994</b>	<b>1,093,277</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable	625,155	853,197	123,712	128,618	1,730,682	329,169
Accrued personnel costs	289,949	684,907	387,535	72,555	1,434,946	115,412
Insurance claims payable	-	-	-	-	-	4,868,170
Interest payable	186,023	7,770	12,561	-	206,354	-
Retentions payable	60,039	88,987	-	-	149,026	-
Unearned revenue	-	-	-	2,945	2,945	-
Due to other funds	-	-	-	3,241,240	3,241,240	-
Due to other governments	283,907	-	-	-	283,907	-
Customer deposits	8,771	-	-	-	8,771	-
<b>Current maturities of long term debt:</b>						
Liability for landfill closure	-	-	133,200	-	133,200	-
Revenue bonds	550,000	451,774	614,591	-	1,616,365	-
Lease payable	-	-	-	342,455	342,455	-
<b>Total Current Liabilities</b>	<b>2,003,844</b>	<b>2,086,635</b>	<b>1,271,599</b>	<b>3,787,813</b>	<b>9,149,891</b>	<b>5,312,751</b>
<b>Noncurrent Liabilities:</b>						
Advance payable	-	-	-	-	-	250,000
Post retirement	171,494	241,362	235,010	44,461	692,327	-
Liability for landfill closure	-	-	2,621,650	-	2,621,650	-
Lease payable	-	-	-	1,057,622	1,057,622	-
Revenue bonds payable (Net of capitalized discounts and issue costs)	29,701,023	2,516,070	4,103,556	-	36,320,649	-
<b>Total Noncurrent Liabilities</b>	<b>29,872,517</b>	<b>2,757,432</b>	<b>6,960,216</b>	<b>1,102,083</b>	<b>40,692,248</b>	<b>250,000</b>
<b>Total Liabilities</b>	<b>31,876,361</b>	<b>4,844,067</b>	<b>8,231,815</b>	<b>4,889,896</b>	<b>49,842,139</b>	<b>5,562,751</b>
<b>Net Assets</b>						
Investment in capital assets (Net of related debt)	22,176,658	41,375,410	(637,080)	8,527,965	71,442,953	-
Unrestricted	39,444,221	4,536,050	3,046,340	(3,205,709)	43,820,902	(4,469,474)
<b>Total Net Assets</b>	<b>61,620,879</b>	<b>45,911,460</b>	<b>2,409,260</b>	<b>5,322,256</b>	<b>115,263,855</b>	<b>(4,469,474)</b>

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, 2010**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES:</b>						
Charges for services	7,595,900	7,557,429	7,889,931	2,057,412	25,100,672	6,881,781
Recycle water revenue	1,492,675	-	-	-	1,492,675	-
<b>Total Operating Revenue</b>	<b>9,088,575</b>	<b>7,557,429</b>	<b>7,889,931</b>	<b>2,057,412</b>	<b>26,593,347</b>	<b>6,881,781</b>
<b>OPERATING EXPENSES:</b>						
Costs of sales and services	6,976,170	7,901,311	7,012,176	2,002,625	23,892,282	6,272,959
Depreciation	785,231	1,069,961	687,653	218,240	2,761,085	-
<b>Total Operating Expenses</b>	<b>7,761,401</b>	<b>8,971,272</b>	<b>7,699,829</b>	<b>2,220,865</b>	<b>26,653,367</b>	<b>6,272,959</b>
<b>Operating Income (Loss)</b>	<b>1,327,174</b>	<b>(1,413,843)</b>	<b>190,102</b>	<b>(163,453)</b>	<b>(60,020)</b>	<b>608,822</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Lease revenue	-	-	-	433,047	433,047	-
Grant revenue	1,676,691	612,762	-	279,170	2,568,623	-
Interest revenue	211,464	186,879	56,502	-	454,845	7,113
Interest expense	(1,497,275)	(166,630)	(227,578)	(143,037)	(2,034,520)	-
Miscellaneous expenses	(2,178,541)	-	(295,124)	-	(2,473,665)	-
Landfill usage	-	-	(95,999)	-	(95,999)	-
Amortization	(45,363)	(197,429)	(141,093)	-	(383,885)	-
<b>Total Nonoperating Revenues (expenses)</b>	<b>(1,833,024)</b>	<b>435,582</b>	<b>(703,292)</b>	<b>569,180</b>	<b>(1,531,554)</b>	<b>7,113</b>
<b>Income Before Contributions</b>						
Capital contributions - Connection fees	56,222	6,026	-	-	62,248	-
<b>Changes in Net Assets</b>	<b>(449,628)</b>	<b>(972,235)</b>	<b>(513,190)</b>	<b>405,727</b>	<b>(1,529,326)</b>	<b>615,935</b>
<b>Total Net Assets - Beginning</b>	<b>63,261,848</b>	<b>46,393,591</b>	<b>2,330,226</b>	<b>4,979,975</b>	<b>116,965,640</b>	<b>(5,170,365)</b>
Prior period adjustments	(1,191,341)	490,104	592,224	(63,446)	(172,459)	84,956
<b>Total Net Assets - Beginning, as restated</b>	<b>62,070,507</b>	<b>46,883,695</b>	<b>2,922,450</b>	<b>4,916,529</b>	<b>116,793,181</b>	<b>(5,085,409)</b>
<b>Total Net Assets - Ending</b>	<b>61,620,879</b>	<b>45,911,460</b>	<b>2,409,260</b>	<b>5,322,256</b>	<b>115,263,855</b>	<b>(4,469,474)</b>

See accompanying notes to financial statements

**CITY OF WATSONVILLE, CALIFORNIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	Fund
	\$	\$	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	9,088,575	6,792,542	7,889,917	2,120,857	25,891,891	-
Receipts from interfund services provided	-	876,566	-	-	876,566	7,097,656
Payments to suppliers	(5,753,340)	(3,368,611)	(3,273,698)	(1,422,122)	(13,817,771)	(8,093,901)
Payments to employees	(2,519,917)	(4,186,581)	(2,596,638)	(457,220)	(9,760,356)	-
Payment for interfund services used	(789,419)	(744,521)	(484,723)	(421,489)	(2,440,152)	-
Net cash provided by operating activities	<u>25,899</u>	<u>(630,605)</u>	<u>1,534,858</u>	<u>(179,974)</u>	<u>750,178</u>	<u>(996,245)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition of capital assets	(558,310)	(4,679,554)	(15,306)	-	(5,253,170)	-
Proceeds from bond refinancing	-	3,491,786	5,444,243	-	8,936,029	-
Bond issuance costs	-	(43,864)	(62,113)	-	(105,977)	-
Non operating expenses	(2,214,018)	-	(439,813)	-	(2,653,831)	-
Connection fees	56,222	6,026	-	-	62,248	-
Grant revenue	1,676,691	612,762	-	215,724	2,505,177	-
Arbitrage paid on debt	-	-	(10,148)	-	(10,148)	-
Principal paid on long term debt	(525,000)	(4,909,462)	(5,090,196)	(325,760)	(10,850,418)	-
Interest paid on long term debt	(1,497,275)	(186,130)	(243,790)	(143,037)	(2,070,232)	-
Net cash provided (used) by capital and related financing activities	<u>(3,061,690)</u>	<u>(5,708,436)</u>	<u>(417,123)</u>	<u>(253,073)</u>	<u>(9,440,322)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Lease revenue	-	-	-	433,047	433,047	-
Interest received	3,253,985	104,258	56,502	-	3,414,745	7,113
Net cash provided (used) by investment activities	<u>3,253,985</u>	<u>104,258</u>	<u>56,502</u>	<u>433,047</u>	<u>3,847,792</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>218,194</u>	<u>(6,234,783)</u>	<u>1,174,237</u>	<u>-</u>	<u>(4,842,352)</u>	<u>(989,132)</u>
<b>CASH AND CASH EQUIVALENTS, JULY 1</b>	<u>4,950,719</u>	<u>9,501,825</u>	<u>4,860,414</u>	<u>1,150</u>	<u>19,314,108</u>	<u>1,973,666</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<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>
<b>Reconciliation of Statement of Net Assets:</b>						
Cash and investments	1,850,203	3,171,942	5,900,174	1,150	10,923,469	984,534
Cash and investments with fiscal agent	3,318,710	95,100	134,477	-	3,548,287	-
	<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>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating Income	<u>1,327,174</u>	<u>(1,413,843)</u>	<u>190,102</u>	<u>(163,453)</u>	<u>(60,020)</u>	<u>608,822</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>						
Depreciation	785,231	1,069,961	687,653	218,240	2,761,085	-
(Increase) decrease in receivables	(8,140,348)	(90,627)	604,680	264,901	(7,361,394)	300,831
(Increase) decrease in inventories	(82,870)	-	-	-	(82,870)	-
(Increase) decrease in loans receivable	4,212,288	209,971	-	-	4,422,259	-
(Increase) decrease in due from other funds	(3,214,240)	-	-	-	(3,214,240)	-
(Increase) decrease in due from other governments	5,957,929	-	-	(139,584)	5,818,345	-
(Increase) decrease in advance receivable	43,337	-	-	-	43,337	-
Increase (decrease) in accounts payable	(181,965)	(249,942)	(103,599)	87,828	(447,678)	77,698
Increase (decrease) in retentions payable	(775,997)	(438,801)	-	-	(1,214,798)	-
Increase (decrease) in claims payable	-	-	-	-	-	(1,924,081)
Increase (decrease) in deferred revenue	-	-	-	2,543	2,543	-
Increase (decrease) in accrued personnel costs	8,312	161,350	37,889	929	208,480	(59,515)
Increase (decrease) in customer deposits	843	-	-	-	843	-
Increase (decrease) in post retirement	86,205	121,326	118,133	22,349	348,013	-
Increase (decrease) in due to other funds	-	-	-	(473,727)	(473,727)	-
Total adjustments	<u>(1,301,275)</u>	<u>783,238</u>	<u>1,344,756</u>	<u>(16,521)</u>	<u>810,198</u>	<u>(1,605,067)</u>
Net cash provided (used) by operating activities	<u>25,899</u>	<u>(630,605)</u>	<u>1,534,858</u>	<u>(179,974)</u>	<u>750,178</u>	<u>(996,245)</u>
<b>NONCASH INVESTING ACTIVITIES:</b>						
Landfill postclosure liability amortization	-	-	\$144,627	-	\$144,627	-
Landfill usage	-	-	68,747	-	68,747	-
Capitalized discounts and issue costs	<u>\$45,363</u>	<u>\$197,429</u>	<u>141,093</u>	<u>-</u>	<u>383,885</u>	<u>-</u>

See accompanying notes to financial statements

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**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, 2010 (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, 2010 (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, 2010 (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, 2010 (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, 2010 (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, 2010 (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.

**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**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to changes.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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) \$181,160,226 differences are as follows:

Capital Assets:

Land	\$14,424,456
Buildings and improvements	131,162,327
Machinery and equipment	10,218,460
Infrastructure	25,153,960
Construction in progress	<u>201,023</u>
Total	<u>\$181,160,226</u>

The details of 2) (\$30,685,064) differences are as follows:

Long-term Debt:

Debt payable to County of Santa Cruz	(\$546,524)
Redevelopment tax allocation bonds	(22,530,000)
Capital leases	(3,017,267)
Sec 108 loan	(1,926,000)
Postretirement	(1,892,273)
Special assessment bonds	<u>(773,000)</u>
Total	<u>(\$30,685,064)</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 (\$3,734,103) difference are as follows:

Capital outlay	\$417,029
Depreciation expense	<u>(4,151,132)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>(\$3,734,103)</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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.

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 reduced by a midyear adjustment of \$270,405. The fund was also increased for new grants in the amount of \$231,100.

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, 2010, expenditures exceeded appropriations in the low income housing set aside fund by \$573,767, and the retirement fund by \$4,791. The low income housing set aside fund had excess fund balance to cover these costs. 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/net assets: retirement fund \$896,742, redevelopment fund \$1,005,549, parking garage fund of \$747,468, impact fees fund \$86,981, redevelopment and housing grant fund \$954,750 and the internal service fund \$4,469,474 as of June 30, 2010. 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.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**IV. Detailed notes on all funds**

**A. Cash and investments**

Cash and investments at June 30, 2010, consisted of the following:

Total Pooled Deposits and Investments	\$29,806,936
Cash and Investments with Fiscal Agent	<u>6,258,813</u>
Total Cash and Investments	<u>\$36,065,749</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.

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, 2010 were as follows:

<u>Cash</u>		
Demand Deposits	\$ 2,896,313	
Outstanding Checks	(2,152,895)	
Deposits in Transit	<u>43,213</u>	
Net Demand Deposits	786,631	
Petty Cash	<u>9,919</u>	
Cash Subtotal		796,550
<u>Investments</u>		
Assessment Bonds	773,022	
U.S. Government Securities	12,594,930	
Mutual Funds:		
Money Market	1,507,046	
Guaranteed Investment Contracts	6,208,454	
Local Agency Investment Fund	<u>14,185,747</u>	
Investment Subtotal		<u>35,269,199</u>
Total Cash and Investments		<u>\$36,065,749</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

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

Governmental Funds:	
General	\$1,902,722
Low Income Housing Set-Aside	3,610,597
General Debt Service	888,112
Redevelopment Debt Service	5,281,840
Other Non-major Funds	<u>8,926,188</u>
Total Governmental Funds	<u>20,609,459</u>
Business-type Activities:	
Water	5,168,913
Sewer	3,267,042
Solid waste	6,034,651
Airport	<u>1,150</u>
Total Business-type Activities	<u>14,471,756</u>
<u>Governmental Activities</u>	
Internal Service Fund	<u>984,534</u>
Total Governmental Activities	<u>984,534</u>
Total Government Cash	<u>\$36,065,749</u>

**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, 2010, the government carrying amount of deposits and cash on hand was \$796,550 and bank balances was \$2,896,313. Our bank balances were covered by Federal Depository Insurance in the government's name.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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

**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	\$ 12,594,930	\$ -	\$ -	\$ 12,594,930	\$ -
State Investment Pool	14,185,747	14,185,747	-	-	-
Debt of City of Watsonville	773,022	-	-	-	773,022
Money Market	1,507,046	1,507,046	-	-	-
Guaranteed Inv. Contracts	<u>6,208,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,208,454</u>
Total	<u>\$35,269,199</u>	<u>\$15,692,793</u>	<u>\$ -</u>	<u>\$12,594,930</u>	<u>\$6,981,476</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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	\$12,594,930	N/A	\$ -	\$12,594,930	
State Investment Pool	14,185,747	N/A			\$ 14,185,747
Debt of City of Watsonville	773,022	N/A			773,022
Money Market	1,507,046	N/A			1,507,046
Guaranteed Inv. Contracts	6,208,454	N/A		6,208,454	
Total	<u>\$35,269,199</u>		<u>\$ -</u>	<u>\$18,803,384</u>	<u>\$16,465,815</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, 2010 the amortized cost value of the pool was \$69,385,966,558 and the estimated fair value of the pool was \$69,555,776,591. 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:

	<u>General</u>	<u>Impact Fees</u>	<u>Low Income Housing Set Aside</u>	<u>Redevelopment</u>
Governmental Activities:	\$	\$	\$	\$
Receivables:				
Interest	149,532	-	400,884	145,081
Taxes	1,759,880	-	-	-
Accounts	504,514	17,651	-	-
Intergovernmental	<u>463,236</u>	<u>1,658,305</u>	<u>-</u>	<u>486,997</u>
Total governmental activities receivables	<u>2,877,162</u>	<u>1,675,956</u>	<u>400,884</u>	<u>632,078</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

<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	-	-	103,599
Taxes	6,265	263,504	447,066
Deferred			
Assessments	773,000	-	-
Accounts	-	-	488,033
Intergovernmental	-	-	<u>541,030</u>
Total governmental			
Activities receivables	<u>779,265</u>	<u>263,504</u>	<u>1,579,728</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	2,050	-	-	-	-
Accounts	7,610,853	1,586,855	659,471	106,684	46,743
Intergovernmental	-	-	-	<u>139,585</u>	-
Total business-type					
activities receivables	<u>7,612,903</u>	<u>1,586,855</u>	<u>659,471</u>	<u>246,269</u>	<u>43,743</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:

	<u>Unavailable</u>	<u>Unearned</u>
	\$	\$
Special assessments not yet due (debt service)	773,000	-
Grant funds received but not earned	-	21,480
Grants draw downs prior to meeting all eligibility requirements:		
general fund	253,618	-
special revenue funds	2,408,369	-
Loans/interest receivables prior to meeting all eligibility requirements:		
general fund	260,731	-
special revenue funds	<u>25,877,256</u>	-
Total deferred revenue	<u>29,572,973</u>	<u>21,480</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**Loans Receivable**

Loans receivable at June 30, 2010 are summarized as follows:

General Fund:

Barbara Schutter	\$3,750	
County of Santa Cruz	48,975	
Evergreen Apartments	<u>208,007</u>	\$206,731

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	2,638,054	
First Time Home Buyers	170,000	
Sunny Meadows	1,125,000	
Rental Rehab Loans	<u>963,334</u>	9,141,454

Redevelopment and Housing Funds:

Rental Rehab Loans	3,721,960	
Monarch Disabled Housing	100,279	
South County Land Corporation	2,573,000	
First Time Home Buyers	7,619,500	
Down Payment Assistant Loans	<u>30,000</u>	14,044,739

Other Governmental Funds

	<u>2,041,499</u>	<u>2,041,499</u>
--	------------------	------------------

Total

\$25,488,423

**C. Capital assets**

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Beginning</u> <u>Balance</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Ending</u> <u>Balance</u> \$
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	14,424,456	-	-	14,424,456
Construction in progress	<u>19,194,754</u>	<u>342,578</u>	<u>(19,336,309)</u>	<u>201,023</u>
Total capital assets, not being depreciated	<u>33,619,210</u>	<u>342,578</u>	<u>(19,336,309)</u>	<u>14,625,479</u>
Capital assets, being depreciated:				
Building and improvements	111,835,078	19,327,249	-	131,162,327

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

Machinery and equipment	10,483,955	44,574	(310,069)	10,218,460
Infrastructure	<u>25,132,325</u>	<u>38,937</u>	<u>(17,302)</u>	<u>25,153,960</u>
Total capital assets being depreciated	<u>147,451,358</u>	<u>19,410,760</u>	<u>(327,371)</u>	<u>166,534,747</u>
Less accumulated depreciation for:				
Building and improvements	(18,407,614)	(2,719,731)	-	(21,127,345)
Machinery and equipment	(6,468,611)	(289,302)	310,069	(6,447,844)
Infrastructure	<u>(18,873,519)</u>	<u>(1,142,099)</u>	<u>17,302</u>	<u>(19,998,316)</u>
Total accumulated depreciation	<u>(43,749,744)</u>	<u>(4,151,132)</u>	<u>327,371</u>	<u>(47,573,505)</u>
Total capital assets, Being depreciated, net	<u>103,701,614</u>	<u>15,259,628</u>	<u>-</u>	<u>118,961,242</u>
Governmental activities capital assets, net	<u>137,320,824</u>	<u>15,602,206</u>	<u>(19,336,309)</u>	<u>133,586,721</u>
	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Business-type activities:	\$	\$	\$	\$
Capital assets, not being depreciated:				
Land	22,663,599	-	-	22,663,599
Construction in progress	<u>44,717,957</u>	<u>414,017</u>	<u>(43,284,142)</u>	<u>1,847,832</u>
Total capital assets, not being depreciated	<u>67,381,556</u>	<u>414,017</u>	<u>(43,284,142)</u>	<u>24,511,431</u>
Capital assets, being depreciated:				
Building and improvements	31,361,270	47,917,081	-	79,278,351
Machinery and equipment	15,102,885	130,200	(131,861)	15,101,224
Infrastructure	<u>53,716,052</u>	<u>76,014</u>	<u>-</u>	<u>53,792,066</u>
Total capital assets being depreciated	<u>100,180,207</u>	<u>48,123,295</u>	<u>(131,861)</u>	<u>148,171,641</u>
Less accumulated depreciation for:				
Building and improvements	(13,234,183)	(730,125)	-	(13,964,308)
Machinery and equipment	(8,398,495)	(984,184)	102,817	(9,279,862)
Infrastructure	<u>(41,160,369)</u>	<u>(1,046,776)</u>	<u>-</u>	<u>(42,207,145)</u>
Total accumulated depreciation	<u>(62,793,047)</u>	<u>(2,761,085)</u>	<u>102,817</u>	<u>(65,451,315)</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

Total capital assets, being depreciated, net	<u>37,387,160</u>	<u>45,362,210</u>	<u>(29,044)</u>	<u>82,720,326</u>
Business-type activities capital assets, net	<u>104,768,716</u>	<u>45,776,227</u>	<u>(43,313,186)</u>	<u>107,231,757</u>

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

Government activities:	
General government	\$1,445,308
Public safety	848,654
Housing	34,997
Highways and streets	523,688
Culture and recreation	<u>1,298,485</u>
Total depreciation expense - governmental activities	<u>\$4,151,132</u>
Business-type activities:	
Water	\$785,231
Sewer	1,069,961
Solid Waste	687,563
Airport	<u>218,240</u>
Total depreciation expense - business-type activities	<u>\$2,761,085</u>

**D. Interfund receivables, payables, and transfers**

The composition of interfund activities as of June 30, 2010, 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 after the end of the fiscal year. Due from/to other funds balances at June 30, 2010 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
<b>Governmental Funds:</b>	\$	\$
General	1,776,461	-
Impact Fees	-	103,995
Redevelopment & Housing	-	1,188,244
Nonmajor Funds	<u>1,292,239</u>	<u>1,749,461</u>
Total Governmental Funds	<u>3,068,700</u>	<u>3,041,700</u>
<b>Business-type Fund:</b>		
Enterprise Fund:		
Water	3,214,240	-
Airport	-	<u>3,241,240</u>
Total Business-type Funds	<u>-</u>	<u>3,241,240</u>
Total government	<u>6,282,940</u>	<u>6,282,940</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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

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 receivable</u>	<u>Advances payable</u>
<b>Governmental Funds:</b>	\$	\$
General	26,556	-
Impact Fees	106,665	-
Low Income Housing Set Aside	250,000	150,373
Nonmajor Funds	<u>139,485</u>	<u>898,520</u>
Total Governmental Funds	<u>522,706</u>	<u>1,048,893</u>
<b>Business-type Fund:</b>		
Water	<u>776,187</u>	-
<b>Internal Service Fund:</b>		
Internal Service Fund	-	<u>250,000</u>
Total Proprietary-type Funds	<u>776,187</u>	<u>250,000</u>
Total government	<u>1,298,893</u>	<u>1,298,893</u>

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:

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>General Debt Service Fund</u>	<u>RDA Debt Service Fund</u>	<u>Non-major Funds</u>	
<u>Transfers out:</u>	\$	\$	\$	\$	\$
Impact Fees	-	23,140	-	-	23,140
Low Income Housing Set Aside	-	-	624,673	-	624,673
Redevelopment-Housing	150,000	213,834	-	-	363,834
Redevelopment Debt Service	-	-	-	4,919,035	4,919,035
Non-major Funds	<u>2,561,000</u>	<u>1,045,250</u>	-	-	<u>3,606,250</u>
Total Transfers Out	<u>2,711,000</u>	<u>1,282,224</u>	<u>624,673</u>	<u>4,919,035</u>	<u>9,536,932</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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

cost for the lease was \$77,332 for the fiscal year ended June 30, 2010. The future minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u> \$
2011	76,503
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>792,722</u>

**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.

**Capital leases**

In 2001, the government entered into a refinance lease, with the option to purchase, for forty-seven T hangars, four small end hangars, and six executive hangars valued at \$1,500,000 with a fixed interest rate of 4.65%. On June 30, 2010, the government has the option to purchase the hangars for \$431,156. At the end of the lease, the hangars become the property of the government. The hangars under the capitalized lease are stated at net present value of minimum lease payments.

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

Fiscal Year Ended <u>June 30,</u>	<u>Payment</u> \$
2011	133,391
2012	133,391

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

2013	133,391
2014	<u>55,580</u>
Total lease payments	455,753
Less imputed interest	<u>(35,113)</u>
Net present value of total future lease payments	<u>420,640</u>

In 1999, the government entered into a lease, with the option to purchase, sixty-nine T hangars, three mid hangars, and six corporate hangars valued at \$2,699,104 with an interest rate of 5.25%. The purchase option amount as of June 30, 2010 was \$999,026. At the end of the lease, the hangars become the property of the government.

The hangars under the capitalized lease are stated at net present value of minimum lease payments.

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

Fiscal Year Ended <u>June 30,</u>	<u>Payment</u> \$
2011	274,657
2012	274,657
2013	274,657
2014	<u>274,658</u>
Total lease payments	1,098,629
Less imputed interest	<u>(119,192)</u>
Net present value of total future lease payments	<u>979,437</u>

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 \$535,000 to \$1,005,000 through fiscal year 2013.

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

Maturity Date <u>March 1,</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2011	930,000	116,000	1,046,000
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>2,900,000</u>	<u>235,000</u>	<u>3,135,000</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

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, 2010 was \$119,198. 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>	\$	\$	\$
2011	17,219	5,921	23,140
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>22,028</u>	<u>1,112</u>	<u>23,140</u>
Total	<u>117,267</u>	<u>21,573</u>	<u>138,840</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, 2010.

**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.

**Water Revenue Refunding Bonds Series 1998** - On June 1, 1998, the government issued \$8,300,000 in Water Refunding Bonds with interest rates ranging from 4.25% to 5.00% to refund \$5,910,000 of outstanding 1991 Series A Water Revenue Bonds with interest rates ranging from 4.74% to 6.75%.

During the 2009-10 fiscal year, the City of Watsonville issued refunding bonds for the Sewer and Solid Waste funds as follows:

**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% for a current refunding of \$4,425,000 of outstanding 1998 Sewer Revenue Bonds with interest rates ranging from 4.625% to 5.0%. The refunding was undertaken to reduce the total future debt service payments and resulted in an economic gain of \$63,242 and a reduction of \$1,348,401 in future debt service payments.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010** (Continued)

**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% for a current refunding of \$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. The refunding portion of the bonds was undertaken to reduce the total future debt service payments and resulted in an economic gain of \$125,937 and a reduction of \$1,434,678 in future debt service payments.

Revenue bonds payable at June 30, 2010 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
\$8,300,000, 1998 water revenue refunding bonds due in annual principal installments ranging from \$125,000 to \$700,000 through May 2016, interest rate ranges from 4.25% to 5.00%	3,715,000
\$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%	3,007,322
\$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>4,774,049</u>
<b>Total Revenue Bonds</b>	<u><b>38,841,371</b></u>

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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

2007 Water Revenue Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2011		1,294,059	1,294,059
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
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>24,353,404</u>	<u>51,698,404</u>

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

1998 Water Revenue Refunding Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2011	550,000	181,995	731,995
2012	575,000	155,870	730,870

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

2013	600,000	128,270	728,270
2014	630,000	98,870	728,870
2015*	660,000	68,000	728,000
2016*	<u>700,000</u>	<u>35,000</u>	<u>735,000</u>
Total	<u>3,715,000</u>	<u>668,005</u>	<u>4,383,005</u>

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

2009 Sewer Revenue Refunding Bonds

Fiscal <u>Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2011	451,774	118,716	570,490
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>3,007,322</u>	<u>415,618</u>	<u>3,422,940</u>

2009 Solid Waste Revenue Refunding Bonds

Fiscal <u>Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2011	614,591	193,014	807,605
2012	640,390	167,215	807,605
2013	667,272	140,333	807,605
2014	695,283	112,322	807,605
2015	724,470	83,135	807,605
2016	754,883	52,722	807,605
2017	216,188	26,818	243,006
2018	225,584	17,422	243,006
2019	<u>235,388</u>	<u>2,558</u>	<u>237,946</u>
Total	<u>4,774,049</u>	<u>745,539</u>	<u>5,519,588</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**Tax allocation bonds**

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

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

**2004 Tax Allocation Bonds, Series A**

A portion of the proceeds from the issue is to be used to finance a portion of the costs of design and construction of the Civic Center Plaza and Parking Structure project in downtown Watsonville. Interest rates for the Series A bonds range from 4% to 5% with principal payments ranging from \$265,000 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>	\$	\$	\$
2010	575,000	765,198	1,340,198
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
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>16,715,000</u>	<u>9,644,008</u>	<u>26,359,008</u>

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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

2004 Tax Allocation Bonds, Series B-1

A portion of the proceeds from this issue is to be used to finance certain low and moderate income housing capital improvements within the Redevelopment Project Area. Interest rates for the Series B-1 bonds range from 4% to 5% with principal payments ranging from \$60,000 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>	\$	\$	\$
2010	95,000	84,571	179,571
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>1,910,000</u>	<u>748,287</u>	<u>2,658,287</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 \$100,000 to \$380,000 through fiscal year 2025.

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



**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010** (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%. 28,000

\$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%. 31,000

\$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%. 65,000

\$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%. 55,000

\$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%. 28,000

\$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%. 490,000

\$100,022 7<sup>th</sup>, 8<sup>th</sup> & 9th Street assessment district  
bonds due in annual principal installments  
ranging from \$5,000 to \$10,000 through  
60,000

Total limited obligation bonds payable at  
June 30, 2010 773,000

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2011	99,000	48,239	147,239
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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

2016	76,000	18,339	94,339
2017	65,000	13,840	78,840
2018	51,000	9,685	60,685
2019	49,000	6,370	55,370
2020	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>
Total	<u>773,000</u>	<u>229,663</u>	<u>1,002,663</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 \$95,349 at June 30, 2010. The loan has a 0% imputed interest rate.

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2011	23,836
2012	23,836
2013	23,836
2014	<u>23,841</u>
Total	<u>95,349</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>
	\$
2011	44,411
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>451,175</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, 2010 (Continued)**

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2010 is as follows:

Maturity Date <u>August 1</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2010	105,000	104,167	209,167
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>1,926,000</u>	<u>907,098</u>	<u>2,833,098</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 \$1,186,510.

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, 2010, the new landfill cell had used 71.4% of its projected space. The estimated closure and post-closure costs were \$1,412,512 and \$1,186,510. The estimated remaining closure and postclosure costs are \$403,773 and \$339,169, which will be recognized as the remaining capacity is used (estimated to be 7.3 years). To date, the fund has \$898,770 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,008,739 and post-closure costs of \$847,341 for the open phase III cell for a total of \$2,754,850. 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, 2010 (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, 2010, twenty four 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 2009-2010, expenditures of \$137,900 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 2009-2010, the City's annual OPEB cost (expense) of \$1,438,000 was equal to the ARC. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2009-2010, 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

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, is as follows

Actuarial accrued liability (AAL)	\$13,266,100
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$13,266,100</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$26,551,600
UAAL as a percentage of covered payroll	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. The schedule of funding progress, presented as required supplementary

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010** (Continued)

information following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, 2009, 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 percent. The actuarial value of plan assets was not calculated in this, the first actuarial valuation, as there are no assets to value. 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 City did not pre-fund retiree healthcare costs nor did the City establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

**Changes in long-term debt**

Long-term debt activity for the fiscal year ended June 30, 2010, was as follows:

	<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>
	\$	\$	\$	\$	\$
Bonds Payable:					
Tax allocation bonds	23,340,000	-	(810,000)	22,530,000	845,000
Special assessment debt with government commitment	<u>868,000</u>	<u>-</u>	<u>(95,000)</u>	<u>773,000</u>	<u>99,000</u>
Total bonds payable	24,208,000	-	(905,000)	23,303,000	944,000
Capital leases	3,933,658	-	(916,391)	3,017,267	947,219
Debt payable	613,477	-	(66,953)	546,524	68,247
Postretirement liability	940,186	1,034,827	(82,740)	1,892,273	
Note payable	<u>2,031,000</u>	<u>-</u>	<u>(105,000)</u>	<u>1,926,000</u>	<u>105,000</u>
Governmental activity					
Long-term liabilities	<u>31,726,321</u>	<u>1,034,827</u>	<u>(2,076,084)</u>	<u>30,685,064</u>	<u>2,064,466</u>
Less: Bond Issuance costs				<u>(467,504)</u>	
Net Long-term Debt				<u>30,217,560</u>	

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

	<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	40,430,000	8,936,029	(10,524,658)	38,841,371	1,616,365
Less deferred amounts:					
For issuance discounts	<u>(1,182,265)</u>	<u>(105,977)</u>	<u>383,885</u>	<u>(904,357)</u>	<u>-</u>
Total bonds payable	39,247,735	8,830,052	(10,140,773)	37,937,014	1,616,365
Capital leases	1,725,837	-	(325,760)	1,400,077	342,455
Postretirement liability	344,314	403,173	(55,160)	692,327	-
Landfill closure	<u>2,803,540</u>	<u>11,230</u>	<u>(59,920)</u>	<u>2,754,850</u>	<u>133,200</u>
Business-type activity					
Long-term liabilities	<u>44,121,426</u>	<u>9,187,295</u>	<u>(10,581,613)</u>	<u>42,784,268</u>	<u>2,092,020</u>

**G. Reserves of fund balances**

In the fund financial statements, reserves segregate portions of fund balance that are either not available or have been earmarked for specific purpose. The various reserves established as of June 30, 2010 were as follows:

	General <u>Fund</u>	Impact Fee <u>Fund</u>	Low Income Housing Set Aside <u>Fund</u>	Other Governmental <u>Funds</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Encumbrances	248,714	-	17,544	323,039	589,297
Charter	2,450,000	-	-	-	2,450,000
Inventories	23,121	-	-	-	23,121
Advances	26,556	106,665	250,000	139,485	522,706
Land Held for Resale	-	-	854,280	-	854,280

Reserved for Encumbrance - These reserves represent the portion of purchase orders awarded for which the goods or services had not yet been received as of June 30, 2010.

Reserved for Charter - The City Charter requires the General Fund to reserve a portion of the General Fund Balance.

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

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

Reserved for Land Held for Resale - This reserve is for restricted assets held for sale in future years, so it is not considered as current funds available.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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 \$250,000 for each workers' compensation claim; \$500,000 for each general liability claim; and \$75,000 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, 2010 totaled \$4,868,170 as follows: Health Benefits \$927,877; General Liability \$129,900; and Workers' Compensation \$3,811,294.

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.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

	<u>2008/09</u>	<u>2009/10</u>
Claims incurred but not reported:	\$	\$
Beginning	825,403	1,067,105
Incurred claims	4,737,883	4,663,172
Claims paid	<u>(4,496,181)</u>	<u>(4,673,400)</u>
Ending	<u>1,067,105</u>	<u>1,056,877</u>
Claims payable:		
Beginning	4,670,705	5,725,146
Incurred claims	7,139,777	3,719,649
Claims paid	<u>(6,085,336)</u>	<u>(5,633,502)</u>
Ending	<u>5,725,146</u>	<u>3,811,293</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, 2010, total estimated claims payable for General Liability were \$80,100.

**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.

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

**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**

**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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

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, 2010, 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	26.564%	
Fire	26.879%	
Miscellaneous		8.973%

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

**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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

contribution requirements are also used to compute the actuarial accrued liability. The City does not have a pension obligation since it pays these actuarially required contributions monthly.

**Annual pension cost:**

For 2010, the city's annual pension cost for Miscellaneous employees was \$1,503,591, Police employees was \$1,779,754 and Fire employees was \$970,173.

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>
	\$	%	\$
6/30/08	1,648,948	100	0
6/30/09	1,693,029	100	0
6/30/10	1,503,591	100	0
Police Safety Plan			
6/30/08	1,626,448	100	0
6/30/09	1,635,220	100	0
6/30/10	1,779,754	100	0
Fire Safety Plan			
6/30/08	884,958	100	0
6/30/09	959,669	100	0
6/30/10	970,173	100	0

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

**Required Supplementary Information:**

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

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

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, 2009.

**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						
6/30/07	70,946	74,298	(3,352)	104.7%	16,503	20.3%
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%

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 CAIPERS 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, 2010 for government wide governmental activities, governmental activities and business-type activities. The adjustments were as follows:

	<u>Beginning Balance</u> \$	<u>Additions</u> \$	<u>Decreases</u> \$	<u>Beginning Balance Restated</u> \$
<b>Government Wide</b>				
Governmental	153,773,207	287,393	(858,215)	153,202,385
<b>Governmental Funds:</b>				
General Fund	2,820,710	161,467	-	2,982,177
Impact Fee	299,949	23,140	-	323,089
Low Income Housing				
Set Aside	6,539,371	-	(674,047)	5,865,324
Redevelopment and Housing	(957,203)	300	(134,998)	(1,091,901)
General Debt	887,406	-	(23,140)	864,266
Other Governmental				
Funds	9,398,436	17,528	-	9,415,964
<b>Business-type Activities:</b>				
Water	63,261,848	-	(1,191,341)	62,070,507

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

Sewer	46,393,591	490,104	-	46,883,695
Solid Waste	2,330,226	592,224	-	2,922,450
Airport	4,979,975	-	(63,446)	4,916,529

**Following are detailed explanations of prior period adjustments:**

Government Wide - Governmental Activities:

1. An adjustment was made to correct prior year interest payable (\$23,028).
2. An adjustment was made to correct prior year internal service \$84,956.

Governmental Funds:

General Fund:

3. An adjustment was made to record admin fees earned on prior year services \$136,464.
4. An adjustment was made to record prior year utility user taxes \$18,508.
5. An adjustment was made to record prior year evidence funds transfer \$6,495.

Impact Fee Fund:

1. An adjustment was made to correct posting of debt service transfer twice in prior year \$23,140.

Low Income Housing Set Aside Fund:

1. An adjustment was made to remove youthbuild homes from the balance sheet that were sold in prior year (\$629,634).
2. An adjustment was made to remove rental income (\$301).
3. An adjustment was made to correct prior year cost allocation (\$44,112).

Redevelopment and Housing Grants Fund:

1. An adjustment was made to increase rental income \$301.
2. An adjustment was made to correct prior year Deferred revenue and intergovernmental receivable (\$134,999).

General Debt Service Fund:

1. Adjustments were made to adjust debt service transfer (23,140).

Other Governmental Funds:

1. Adjustments were made to correct prior year cost allocations \$17,528.

**Business-type Activities:**

Water Fund:

1. An adjustment was made to correct prior year cost allocation (\$17,528).
2. An adjustment was made to record admin fees earned on prior year services (\$136,464).
3. An adjustment was made to correct prior year utility user taxes allocation (\$1,037,349).

Sewer Fund:

1. An adjustment was made to correct prior year utility user taxes allocation \$435,477.
2. An adjustment was made to correct prior year cost allocation \$45,503.
3. An adjustment was made to remove arbitrage liability \$9,124.

Solid Waste Fund:

1. An adjustment was made to correct prior year utility user taxes allocation \$583,467.
2. An adjustment was made to correct prior year cost allocation (\$1,391).
3. An adjustment was made to remove arbitrage liability \$10,148.

Airport Fund:

1. An adjustment for over recording grant revenue of (\$63,446).

**H. New Accounting Pronouncements**

**Governmental Accounting Standards Board Statement No. 51**

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Implementation of GASB Statement No. 51, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2010.

**Governmental Accounting Standards Board Statement No. 53**

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. Implementation of GASB Statement No. 53, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2010.

**Governmental Accounting Standards Board Statement No. 57**

For the fiscal year ended June 30, 2010, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement is effective December 2009. This Statement amends Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The requirements in the Statement allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting. As a result of this change, the cost of compliance with the requirements of Statement No. 45 for eligible agent employers may be reduced while achieving an appropriate balance between the goals of reliable measurement of reported information and reasonable cost. Implementation of the GASB Statement No. 57, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2010.

**Governmental Accounting Standards Board Statement No. 58**

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditor by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Implementation of GASB Statement No. 58, did not have an impact on City's financial statements for the fiscal year ended June 30, 2010.

**I. Subsequent Events**

On December 10, 2010, the City loaned the Water fund \$2,833,990. The loan's proceeds were used to redeem the 1998 Water Refunding Bonds. The Net Present Value savings for the

**CITY OF WATSONVILLE, CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 (Continued)**

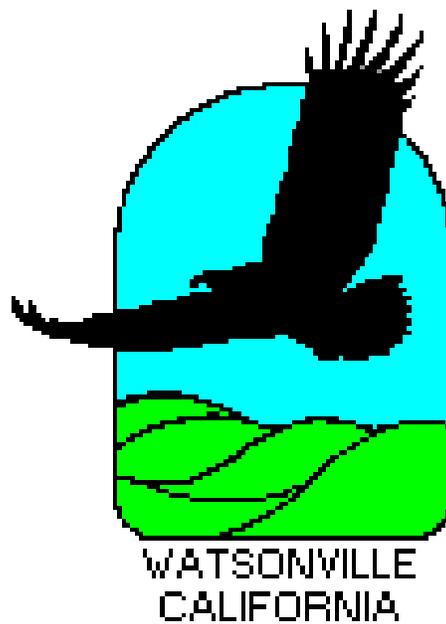
refunding was \$153,697. The loan has a coupon rate of 3.39% over a term of 5 years with annual debt service payments totaling \$616,989 per year.

**J. Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% in the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Watsonville was \$851,369.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the Securitization Program and accordingly, property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

This Page Left Intentionally Blank



**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 Grants**

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, 2010**

	Special Revenue Funds						
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	RENTAL REHABILITATION	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS:</b>							
Cash and investments	3,602,821	206,724	216,493	495,548	2,432,820	552,873	580,020
Receivables:							
Interest	-	-	-	16,570	-	-	-
Taxes	81,264	-	-	-	262,412	-	7,948
Accounts	108,546	-	139	-	-	-	349,842
Intergovernmental	503,530	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	103,995	-
Advances receivable	-	-	-	-	-	-	82,050
Loans receivable	-	-	-	69,709	120,879	-	-
<b>Total Assets</b>	<b>4,296,161</b>	<b>206,724</b>	<b>216,632</b>	<b>581,827</b>	<b>2,816,111</b>	<b>656,868</b>	<b>1,019,860</b>
<b>LIABILITIES AND FUND BALANCES:</b>							
<b>Liabilities:</b>							
Accounts payable	29,980	100	-	-	1,438	3,995	57,994
Accrued personnel costs	7,262	-	-	-	-	5,921	6,365
Retentions payable	-	-	-	-	-	-	82,790
Due to other funds	-	-	-	-	-	-	-
Advances payable	-	-	-	-	-	-	-
Deferred revenue	503,530	-	-	86,279	120,879	-	-
Unearned revenue	-	-	1,241	-	-	-	-
Deposits	-	57,027	-	-	-	-	-
<b>Total Liabilities</b>	<b>540,772</b>	<b>57,127</b>	<b>1,241</b>	<b>86,279</b>	<b>122,317</b>	<b>9,916</b>	<b>147,149</b>
<b>Fund Balances:</b>							
Reserved for encumbrances	205,601	-	-	-	72,587	-	44,851
Reserved for advances	-	-	-	-	-	-	82,050
Unreserved - designated for subsequent years expenditures	3,549,788	149,597	215,391	495,548	2,621,207	646,952	745,810
Unreserved	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<b>3,755,389</b>	<b>149,597</b>	<b>215,391</b>	<b>495,548</b>	<b>2,693,794</b>	<b>646,952</b>	<b>872,711</b>
<b>Total Liabilities and Fund Balances</b>	<b>4,296,161</b>	<b>206,724</b>	<b>216,632</b>	<b>581,827</b>	<b>2,816,111</b>	<b>656,868</b>	<b>1,019,860</b>

Continued

**CITY OF WATSONVILLE, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2010**

	Special Revenue Funds						
	RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	INCLUSIONARY HOUSING	TOTAL
	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS:</b>							
Cash and investments	-	-	400	281,022	-	557,467	8,926,188
Receivables:							
Interest	-	-	-	-	-	87,029	103,599
Taxes	82,599	-	-	-	12,843	-	447,066
Accounts	-	18,813	5,098	-	5,595	-	488,033
Intergovernmental	-	37,500	-	-	-	-	541,030
Due from other funds	-	-	-	-	-	1,188,244	1,292,239
Advances receivable	-	-	-	-	-	57,435	139,485
Loans receivable	-	44,129	-	-	-	1,806,782	2,041,499
<b>Total Assets</b>	<b>82,599</b>	<b>100,442</b>	<b>5,498</b>	<b>281,022</b>	<b>18,438</b>	<b>3,696,957</b>	<b>13,979,139</b>
<b>LIABILITIES AND FUND BALANCES:</b>							
<b>Liabilities:</b>							
Accounts payable	-	29,274	5,706	-	-	25	128,512
Accrued personnel costs	-	92,985	9,191	-	-	11,128	132,852
Retentions payable	-	2,500	-	-	-	-	85,290
Due to other funds	979,341	-	738,069	-	32,051	-	1,749,461
Advances payable	-	898,520	-	-	-	-	898,520
Deferred revenue	-	81,629	-	-	-	1,893,811	2,686,128
Unearned revenue	-	1,083	-	-	-	-	2,324
Deposits	-	-	-	-	-	-	57,027
<b>Total Liabilities</b>	<b>979,341</b>	<b>1,105,991</b>	<b>752,966</b>	<b>-</b>	<b>32,051</b>	<b>1,904,964</b>	<b>5,740,114</b>
<b>Fund Balances:</b>							
Reserved for encumbrances	-	-	-	-	-	-	323,039
Reserved for advances	-	-	-	-	-	57,435	139,485
Unreserved							
subsequent years expenditures	-	-	-	281,022	-	1,734,558	10,439,873
Unreserved	(896,742)	(1,005,549)	(747,468)	-	(13,613)	-	(2,663,372)
<b>Total Fund Balances</b>	<b>(896,742)</b>	<b>(1,005,549)</b>	<b>(747,468)</b>	<b>281,022</b>	<b>(13,613)</b>	<b>1,791,993</b>	<b>8,239,025</b>
<b>Total Liabilities and Fund Balances</b>	<b>82,599</b>	<b>100,442</b>	<b>5,498</b>	<b>281,022</b>	<b>18,438</b>	<b>3,696,957</b>	<b>13,979,139</b>

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, 2010**

	Special Revenue Funds						
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	RENTAL REHABILI- TATION	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$
<b>REVENUES:</b>							
Taxes	1,062,639	-	-	-	2,299,206	-	-
Licenses, permits and fees	-	-	58,973	-	58,252	-	174,410
Intergovernmental	1,605,000	-	-	-	330,289	-	349,842
Interest	41,707	-	-	5,540	45,246	-	11,829
Miscellaneous	1,220	12,463	-	-	800	-	-
<b>Total revenues</b>	<b>2,710,566</b>	<b>12,463</b>	<b>58,973</b>	<b>5,540</b>	<b>2,733,793</b>	<b>-</b>	<b>536,081</b>
<b>EXPENDITURES:</b>							
Current:							
General government	-	-	73,045	3,236	-	26,475	924,900
Public Safety	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-
Streets	2,234,956	31,968	-	-	-	-	-
Culture and recreation	-	-	-	-	2,287,728	-	-
<b>Total expenditures</b>	<b>2,234,956</b>	<b>31,968</b>	<b>73,045</b>	<b>3,236</b>	<b>2,287,728</b>	<b>26,475</b>	<b>924,900</b>
Excess (deficiency) of revenues over (under) expenditures	475,610	(19,505)	(14,072)	2,304	446,065	(26,475)	(388,819)
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	(417,000)	-	-	-	(1,045,250)	-	-
<b>Total other financing sources (uses)</b>	<b>(417,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,045,250)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>58,610</b>	<b>(19,505)</b>	<b>(14,072)</b>	<b>2,304</b>	<b>(599,185)</b>	<b>(26,475)</b>	<b>(388,819)</b>
Fund balances, July 1	3,696,779	169,102	229,463	493,244	3,292,979	673,427	1,261,530
Prior period adjustments	-	-	-	-	-	-	-
Fund balances, July 1, as restated	3,696,779	169,102	229,463	493,244	3,292,979	673,427	1,261,530
Fund balances, June 30	3,755,389	149,597	215,391	495,548	2,693,794	646,952	872,711

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, 2010**

	Special Revenue Funds						TOTALS
	RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	INCLUSIONARY HOUSING	
	\$	\$	\$	\$	\$	\$	
REVENUES:							
Taxes	2,015,177	-	-	-	-	-	5,377,022
Licenses, permits and fees	-	-	138,119	-	54,158	132,847	616,759
Intergovernmental	-	-	-	-	-	-	2,285,131
Interest	-	15,000	-	-	-	-	119,322
Miscellaneous	-	20,445	114	-	-	-	35,042
Total revenues	<u>2,015,177</u>	<u>35,445</u>	<u>138,233</u>	<u>-</u>	<u>54,158</u>	<u>132,847</u>	<u>8,433,276</u>
EXPENDITURES:							
Current:							
General government	4,791	-	297,563	-	-	-	1,330,010
Public Safety	-	-	-	-	84,112	-	84,112
Housing	-	4,874,122	-	-	-	80,104	4,954,226
Streets	-	-	-	-	-	-	2,266,924
Culture and recreation	-	-	-	-	-	-	2,287,728
Total expenditures	<u>4,791</u>	<u>4,874,122</u>	<u>297,563</u>	<u>-</u>	<u>84,112</u>	<u>80,104</u>	<u>10,923,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,010,386</u>	<u>(4,838,677)</u>	<u>(159,330)</u>	<u>-</u>	<u>(29,954)</u>	<u>52,743</u>	<u>(2,489,724)</u>
Transfers in	-	4,919,035	-	-	-	-	4,919,035
Transfers out	<u>(2,144,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,606,250)</u>
Total other financing sources (uses)	<u>(2,144,000)</u>	<u>4,919,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,312,785</u>
Net change in fund balances	<u>(133,614)</u>	<u>80,358</u>	<u>(159,330)</u>	<u>-</u>	<u>(29,954)</u>	<u>52,743</u>	<u>(1,176,939)</u>
Fund balances, July 1	(763,128)	(1,045,772)	(645,801)	281,022	16,341	1,739,250	9,398,436
Prior period adjustments	-	(40,135)	57,663	-	-	-	17,528
Fund balances, July 1, as restated	<u>(763,128)</u>	<u>(1,085,907)</u>	<u>(588,138)</u>	<u>281,022</u>	<u>16,341</u>	<u>1,739,250</u>	<u>9,415,964</u>
Fund balances, June 30	<u>(896,742)</u>	<u>(1,005,549)</u>	<u>(747,468)</u>	<u>281,022</u>	<u>(13,613)</u>	<u>1,791,993</u>	<u>8,239,025</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, 2010**

	GAS TAX				NARCOTICS ASSETS SEIZURE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	967,500	967,500	1,062,639	95,139	-	-	-	-
Intergovernmental	550,000	550,000	1,605,000	1,055,000	-	-	-	-
Interest	-	-	41,707	41,707	2,500	2,500	-	(2,500)
Miscellaneous	-	-	1,220	1,220	10,000	10,000	12,463	2,463
Total revenues	<u>1,517,500</u>	<u>1,517,500</u>	<u>2,710,566</u>	<u>1,193,066</u>	<u>12,500</u>	<u>12,500</u>	<u>12,463</u>	<u>(37)</u>
EXPENDITURES:								
Public Safety	-	-	-	-	83,970	187,970	31,968	156,002
Streets	3,625,775	3,779,775	2,234,956	1,544,819	-	-	-	-
Total expenditures	<u>3,625,775</u>	<u>3,779,775</u>	<u>2,234,956</u>	<u>1,544,819</u>	<u>83,970</u>	<u>187,970</u>	<u>31,968</u>	<u>156,002</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,108,275)</u>	<u>(2,262,275)</u>	<u>475,610</u>	<u>2,737,885</u>	<u>(71,470)</u>	<u>(175,470)</u>	<u>(19,505)</u>	<u>155,965</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	(340,000)	(417,000)	(417,000)	-	-	-	-	-
Total other financing sources (uses)	<u>(340,000)</u>	<u>(417,000)</u>	<u>(417,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(2,448,275)</u>	<u>(2,679,275)</u>	<u>58,610</u>	<u>2,737,885</u>	<u>(71,470)</u>	<u>(175,470)</u>	<u>(19,505)</u>	<u>155,965</u>
Fund balances, July 1	<u>3,696,779</u>	<u>3,696,779</u>	<u>3,696,779</u>	<u>-</u>	<u>169,102</u>	<u>169,102</u>	<u>169,102</u>	<u>-</u>
Fund balances, June 30	<u>1,248,504</u>	<u>1,017,504</u>	<u>3,755,389</u>	<u>2,737,885</u>	<u>97,632</u>	<u>(6,368)</u>	<u>149,597</u>	<u>155,965</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, 2010**

	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	58,973	(14,027)	12,000	12,000	-	(12,000)
Interest	1,000	1,000	-	(1,000)	13,000	13,000	5,540	(7,460)
Total revenues	<u>74,000</u>	<u>74,000</u>	<u>58,973</u>	<u>(15,027)</u>	<u>25,000</u>	<u>25,000</u>	<u>5,540</u>	<u>(19,460)</u>
EXPENDITURES:								
Current:								
General government	73,045	73,045	73,045	-	28,236	28,236	3,236	25,000
Total expenditures	<u>73,045</u>	<u>73,045</u>	<u>73,045</u>	<u>-</u>	<u>28,236</u>	<u>28,236</u>	<u>3,236</u>	<u>25,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>955</u>	<u>955</u>	<u>(14,072)</u>	<u>(15,027)</u>	<u>(3,236)</u>	<u>(3,236)</u>	<u>2,304</u>	<u>5,540</u>
Net change in fund balances	955	955	(14,072)	(15,027)	(3,236)	(3,236)	2,304	5,540
Fund balances, July 1	<u>229,463</u>	<u>229,463</u>	<u>229,463</u>	<u>-</u>	<u>493,244</u>	<u>493,244</u>	<u>493,244</u>	<u>-</u>
Fund balances, June 30	<u><u>230,418</u></u>	<u><u>230,418</u></u>	<u><u>215,391</u></u>	<u><u>(15,027)</u></u>	<u><u>490,008</u></u>	<u><u>490,008</u></u>	<u><u>495,548</u></u>	<u><u>5,540</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, 2010**

	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	2,257,223	2,257,223	2,299,206	41,983	-	-	-	-
Licenses, permits and fees	77,800	77,800	58,252	(19,548)	-	-	-	-
Intergovernmental	115,000	115,000	330,289	215,289	-	-	-	-
Interest	66,800	66,800	45,246	(21,554)	-	-	-	-
Miscellaneous	138,468	138,468	800	(137,668)	-	-	-	-
Total revenues	<u>2,655,291</u>	<u>2,655,291</u>	<u>2,733,793</u>	<u>78,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:								
Current:								
General government	-	-	-	-	100,000	121,500	26,475	95,025
Culture and recreation	2,683,614	2,683,614	2,287,728	395,886	-	-	-	-
Total expenditures	<u>2,683,614</u>	<u>2,683,614</u>	<u>2,287,728</u>	<u>395,886</u>	<u>100,000</u>	<u>121,500</u>	<u>26,475</u>	<u>95,025</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,323)</u>	<u>(28,323)</u>	<u>446,065</u>	<u>474,388</u>	<u>(100,000)</u>	<u>(121,500)</u>	<u>(26,475)</u>	<u>95,025</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	<u>(1,045,250)</u>	<u>(1,045,250)</u>	<u>(1,045,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,045,250)</u>	<u>(1,045,250)</u>	<u>(1,045,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(1,073,573)</u>	<u>(1,073,573)</u>	<u>(599,185)</u>	<u>474,388</u>	<u>(100,000)</u>	<u>(121,500)</u>	<u>(26,475)</u>	<u>95,025</u>
Fund balances, July 1	<u>3,292,979</u>	<u>3,292,979</u>	<u>3,292,979</u>	<u>-</u>	<u>673,427</u>	<u>673,427</u>	<u>673,427</u>	<u>-</u>
Fund balances, June 30	<u>2,219,406</u>	<u>2,219,406</u>	<u>2,693,794</u>	<u>474,388</u>	<u>573,427</u>	<u>551,927</u>	<u>646,952</u>	<u>95,025</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, 2010**

	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		
	\$	\$	\$	\$	\$	\$	\$	
<b>REVENUES:</b>								
Taxes	-	-	-	-	2,144,000	2,144,000	2,015,177	(128,823)
Licenses, permits, and fees	222,334	222,334	174,410	(47,924)	-	-	-	-
Intergovernmental	-	-	349,842	349,842	-	-	-	-
Interest	32,500	32,500	11,829	(20,671)	-	-	-	-
<b>Total revenues</b>	<b>254,834</b>	<b>254,834</b>	<b>536,081</b>	<b>281,247</b>	<b>2,144,000</b>	<b>2,144,000</b>	<b>2,015,177</b>	<b>(128,823)</b>
<b>EXPENDITURES:</b>								
Current:								
General government	1,244,868	1,244,868	924,900	319,968	-	-	4,791	(4,791)
<b>Total expenditures</b>	<b>1,244,868</b>	<b>1,244,868</b>	<b>924,900</b>	<b>319,968</b>	<b>-</b>	<b>-</b>	<b>4,791</b>	<b>(4,791)</b>
Excess (deficiency) of revenues over (under) expenditures	(990,034)	(990,034)	(388,819)	601,215	2,144,000	2,144,000	2,010,386	(133,614)
<b>OTHER FINANCING SOURCES (USES):</b>								
Transfers out	-	-	-	-	(2,144,000)	(2,144,000)	(2,144,000)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,144,000)</b>	<b>(2,144,000)</b>	<b>(2,144,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(990,034)</b>	<b>(990,034)</b>	<b>(388,819)</b>	<b>601,215</b>	<b>-</b>	<b>-</b>	<b>(133,614)</b>	<b>(133,614)</b>
Fund balances, July 1	1,261,530	1,261,530	1,261,530	-	(763,128)	(763,128)	(763,128)	-
Fund balances, June 30	271,496	271,496	872,711	601,215	(763,128)	(763,128)	(896,742)	(133,614)

**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, 2010**

	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	138,119	(127,881)
Intergovernmental	50,000	50,000	15,000	(35,000)	-	-	-	-
Miscellaneous	21,750	21,750	20,445	(1,305)	-	-	114	114
Total revenues	71,750	71,750	35,445	(36,305)	266,000	266,000	138,233	(127,767)
EXPENDITURES:								
Current:								
General government	-	-	-	-	323,111	323,111	297,563	25,548
Housing	5,042,938	5,042,938	4,874,122	168,816	-	-	-	-
Total expenditures	5,042,938	5,042,938	4,874,122	168,816	323,111	323,111	297,563	25,548
Excess (deficiency) of revenues over (under) expenditures	(4,971,188)	(4,971,188)	(4,838,677)	132,511	(57,111)	(57,111)	(159,330)	(102,219)
OTHER FINANCING SOURCES (USES):								
Transfers in	1,970,881	4,919,035	4,919,035	-	-	-	-	-
Total other financing sources (uses)	1,970,881	4,919,035	4,919,035	-	-	-	-	-
Net change in fund balances	(3,000,307)	(52,153)	80,358	132,511	(57,111)	(57,111)	(159,330)	(102,219)
Fund balances, July 1	(1,045,772)	(1,045,772)	(1,045,772)	-	(645,801)	(645,801)	(645,801)	
Prior period adjustments	-	-	(40,135)	(40,135)	-	-	57,663	57,663
Fund balances, July 1, as restated	(1,045,772)	(1,045,772)	(1,085,907)	(40,135)	(645,801)	(645,801)	(588,138)	57,663
Fund balances, June 30	(4,046,079)	(1,097,925)	(1,005,549)	92,376	(702,912)	(702,912)	(747,468)	(44,556)

**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, 2010**

	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	54,158	(37,942)
Interest	3,000	3,000	-	(3,000)	-	-	-	-
Total revenues	3,000	3,000	-	(3,000)	92,100	92,100	54,158	(37,942)
EXPENDITURES:								
Current:								
General government	100,000	100,000	-	100,000	-	-	-	-
Public Safety	-	-	-	-	92,062	92,062	84,112	7,950
Total expenditures	100,000	100,000	-	100,000	92,062	92,062	84,112	7,950
Net change in fund balances	(97,000)	(97,000)	-	97,000	38	38	(29,954)	(29,992)
Fund balances, July 1	281,022	281,022	281,022	-	16,341	16,341	16,341	-
Fund balances, June 30	184,022	184,022	281,022	97,000	16,379	16,379	(13,613)	(29,992)

**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, 2010**

	INCLUSIONARY HOUSING			Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
	\$	\$	\$	
REVENUES:				
Licenses, permits and fees	55,000	55,000	132,847	77,847
Total revenues	55,000	55,000	132,847	77,847
EXPENDITURES:				
Current:				
Housing	2,127,460	2,127,460	80,104	2,047,356
Total expenditures	2,127,460	2,127,460	80,104	2,047,356
Net change in fund balances	(2,072,460)	(2,072,460)	52,743	2,125,203
Fund balances, July 1	1,739,250	1,739,250	1,739,250	-
Fund balances, June 30	(333,210)	(333,210)	1,791,993	2,125,203

**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, 2010

	GENERAL				REDEVELOPMENT			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
<b>REVENUES:</b>								
Taxes	-	-	-	-	8,864,964	8,864,964	6,302,678	(2,562,286)
Interest	-	-	34,515	34,515	30,000	30,000	79,306	49,306
Special assessment	158,143	158,143	146,815	(11,328)	-	-	-	-
Total revenues	158,143	158,143	181,330	23,187	8,894,964	8,894,964	6,381,984	(2,512,980)
<b>EXPENDITURES:</b>								
Debt service:								
Principal	1,116,392	1,116,392	1,116,392	-	897,757	897,757	876,952	20,805
Interest and fiscal charges	313,049	313,049	317,051	(4,002)	3,282,322	3,282,322	2,942,082	340,240
Total expenditures	1,429,441	1,429,441	1,433,443	(4,002)	4,180,079	4,180,079	3,819,034	361,045
Excess (deficiency) of revenues over (under) expenditures	(1,271,298)	(1,271,298)	(1,252,113)	19,185	4,714,885	4,714,885	2,562,950	(2,151,935)
<b>OTHER FINANCING SOURCES (USES):</b>								
Transfers in	1,282,224	1,282,224	1,282,224	-	594,340	594,340	624,673	30,333
Transfers out	-	-	-	-	(2,865,920)	(2,865,920)	(4,919,035)	(2,053,115)
Total other financing sources (uses)	1,282,224	1,282,224	1,282,224	-	(2,271,580)	(2,271,580)	(4,294,362)	(2,022,782)
Net change in fund balance	10,926	10,926	30,111	19,185	2,443,305	2,443,305	(1,731,412)	(4,174,717)
Fund balance, July 1	887,406	887,406	887,406	-	7,231,448	7,231,448	7,231,448	-
Prior period adjustments	-	-	(23,140)	(23,140)	-	-	-	-
Fund balances, July 1, as restated	887,406	887,406	864,266	(23,140)	7,231,448	7,231,448	7,231,448	-
Fund balance, June 30	898,332	898,332	894,377	(3,955)	9,674,753	9,674,753	5,500,036	(4,174,717)

**CITY OF WATSONVILLE, CALIFORNIA**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**COMPARATIVE SCHEDULE BY SOURCE**  
**JUNE 30, 2010**

	2010	2009
	\$	\$
<b>GOVERNMENTAL FUNDS CAPITAL ASSETS:</b>		
Land	14,424,456	14,424,456
Buildings and improvements	131,162,327	111,835,078
Machinery and equipment	10,218,460	10,483,955
Infrastructure	25,153,960	25,132,325
Construction in progress	201,023	19,194,754
	<u>181,160,226</u>	<u>181,070,568</u>
Total Governmental Funds Capital Assets	<u><u>181,160,226</u></u>	<u><u>181,070,568</u></u>
 <b>INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE</b>		
General fund	136,185,854	136,096,196
Redevelopment agency funds	1,874,085	1,874,085
Other special revenue funds	38,989,559	38,989,559
Capital leases	4,110,728	4,110,728
	<u>181,160,226</u>	<u>181,070,568</u>
Total Governmental Funds Capital Assets	<u><u>181,160,226</u></u>	<u><u>181,070,568</u></u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
**JUNE 30, 2010**

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	-	-	-	470,468	-	-	470,468
Fire	-	778,870	226,800	1,778,152	-	-	2,783,822
Housing	812,382	753,334	258,182	50,187	-	-	1,874,085
Library	-	964,278	77,700	3,315,788	-	-	4,357,766
Nondepartmental	13,612,074	97,941,649	4,488,020	205,265	20,249,005	201,023	136,697,036
Parks and Recreation	-	3,801,826	3,997,240	960,160	-	-	8,759,226
Police	-	2,625,196	581,373	2,011,264	-	-	5,217,833
Public Works	-	2,397,965	12,269,894	1,239,718	4,904,955	-	20,812,532
Total Governmental Funds Capital Assets	<u>14,424,456</u>	<u>109,263,118</u>	<u>21,899,209</u>	<u>10,218,460</u>	<u>25,153,960</u>	<u>201,023</u>	<u>181,160,226</u>

**CITY OF WATSONVILLE, CALIFORNIA**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Function and Activity	Capital Assets	Additions	Deletions	Capital Assets
	Assets			Assets
	June 30, 2009			June 30, 2010
	\$	\$	\$	\$
City Manager	28,605	-	-	28,605
City Clerk	135,583	-	-	135,583
Community Develop.	115,949	-	-	115,949
Finance	443,112	27,356	-	470,468
Fire	2,987,071	13,141	216,390	2,783,822
Housing	1,874,085	-	-	1,874,085
Library	4,357,766	-	-	4,357,766
Nondepartmental	136,806,056	-	90,092	136,715,964
Parks and Recreation	8,302,520	345,099	-	8,647,619
Police	5,207,289	31,433	20,889	5,217,833
Public Works	20,812,532	-	-	20,812,532
Total Government Funds Capital Assets	<u>181,070,568</u>	<u>417,029</u>	<u>327,371</u>	<u>181,160,226</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.

<b>Contents</b>	<b>Page</b>
Financial Trends	108
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	115
These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	119
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	129
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	132
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 Nine Fiscal Years**  
 (accrual basis of accounting)  
 (amounts expressed in thousands)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Governmental activities</b>									
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
Restricted	9,967	11,427	19,282	19,237	26,448	28,461	31,184	23,467	31,320
Unrestricted	8,455	12,862	13,016	17,581	12,472	12,221	5,924	14,074	2,737
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>
<b>Business-type activities</b>									
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
Unrestricted	30,732	33,118	35,905	34,171	35,416	41,067	59,748	49,182	43,821
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>
<b>Primary government</b>									
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
Restricted	9,967	11,427	19,282	19,237	26,448	28,461	31,184	23,467	31,320
Unrestricted	39,187	45,980	48,921	51,752	47,888	53,288	65,672	63,256	46,558
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>

Note: Additional years will be added until ten fiscal years of information is available.

**CITY OF WATSONVILLE, CALIFORNIA**

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

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

Continued

**CITY OF WATSONVILLE, CALIFORNIA**

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

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

Concluded

**CITY OF WATSONVILLE, CALIFORNIA**

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

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

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Franchise Tax</b>	<b>Motor/Vehicle Tax</b>	<b>Utility User Tax</b>	<b>Other Tax</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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

Note: Additional years will be added until ten fiscal years of information is available.

**CITY OF WATSONVILLE, CALIFORNIA**

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

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General fund										
Reserved	4,758	4,183	3,859	3,921	5,326	6,099	6,035	5,407	2,749	2,749
Unreserved	6,812	5,973	7,089	7,139	2,979	-	949	1,244	72	(852)
Total general fund	<u>11,570</u>	<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>
All other governmental funds										
Reserved	2,020	2,651	2,845	3,273	14,382	7,687	11,977	2,181	2,473	1,691
Unreserved, reported in										
Special revenue funds	10,406	6,504	8,308	13,290	24,446	23,419	3,375	7,561	12,808	10,066
Debt service funds	919	812	813	32,230	5,736	4,389	4,496	5,970	8,118	6,394
Total all other governmental funds	<u>13,345</u>	<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>15,712</u>	<u>23,399</u>	<u>18,151</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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>										
Taxes	22,992	25,055	27,508	27,961	31,343	34,572	36,748	38,012	35,781	32,660
Licenses, permits, and fees	3,111	2,151	4,545	10,880	5,911	7,678	6,649	4,716	4,221	2,970
Intergovernmental	4,437	5,538	6,111	8,051	11,799	14,937	13,171	15,995	8,889	5,608
Charges for services	2,693	2,522	2,715	2,953	2,807	3,144	2,083	3,949	3,581	4,326
Fines	386	431	206	547	478	564	466	608	666	984
Interest	2,449	1,650	1,333	1,318	2,529	2,821	3,534	2,463	1,783	1,650
Special assessment	110	68	91	83	83	419	153	156	144	147
Miscellaneous	452	1,644	1,190	1,466	2,160	1,044	2,219	4,203	3,519	1,929
<b>Total revenues</b>	<b>36,630</b>	<b>39,059</b>	<b>43,699</b>	<b>53,259</b>	<b>57,110</b>	<b>65,179</b>	<b>65,023</b>	<b>70,102</b>	<b>58,584</b>	<b>50,274</b>
<b>Expenditures</b>										
Current:										
General government	10,057	10,550	10,273	9,993	11,483	10,636	10,298	8,937	10,924	7,567
Public safety	11,479	12,681	13,206	14,728	17,024	17,987	18,759	16,415	20,807	21,738
Housing	1,932	4,228	2,042	2,704	6,901	4,575	4,285	1,933	1,244	8,720
Streets	1,276	1,510	2,492	2,776	2,964	3,666	3,875	3,647	3,913	6,084
Culture and recreation	2,733	3,813	3,886	4,112	4,402	4,449	3,955	3,156	4,162	6,039
Capital outlay	6,011	10,058	7,911	11,317	17,591	29,609	33,143	37,607	8,997	417 *
Debt service:										
Principal	528	730	602	629	2,025	1,514	1,715	1,828	1,877	1,993
Interest and fiscal charges	895	1,008	1,079	1,681	1,344	3,902	3,543	3,602	3,436	3,259
Bond issuance costs	-	-	-	692	-	-	-	-	-	-
<b>Total expenditures</b>	<b>34,911</b>	<b>44,578</b>	<b>41,491</b>	<b>48,632</b>	<b>63,734</b>	<b>76,338</b>	<b>79,573</b>	<b>77,125</b>	<b>55,360</b>	<b>55,817</b>
Excess (deficiency) of revenues over (under) expenditures	1,719	(5,519)	2,208	4,627	(6,624)	(11,159)	(14,550)	(7,023)	3,224	(5,543)
<b>Other financing sources (uses)</b>										
Sale of fixed assets	18	524	5	440	-	-	-	-	-	-
Bond proceeds	205	-	30	33,698	738	-	179	-	-	-
Payment to defease bonds	-	-	-	(1,819)	-	-	-	-	-	-
Operating transfers in	4,323	4,024	5,621	5,217	7,536	7,827	10,550	7,916	7,169	9,460
Operating transfers out	(4,077)	(4,024)	(5,621)	(5,217)	(7,536)	(7,827)	(10,550)	(7,916)	(7,169)	(9,460)
<b>Total other financing sources (use)</b>	<b>469</b>	<b>524</b>	<b>35</b>	<b>32,319</b>	<b>738</b>	<b>-</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>2,188</b>	<b>(4,995)</b>	<b>2,243</b>	<b>36,946</b>	<b>(5,886)</b>	<b>(11,159)</b>	<b>(14,371)</b>	<b>(7,023)</b>	<b>3,224</b>	<b>(5,543)</b>
Debt service as a percentage of noncapital expenditures	5.2%	5.3%	5.3%	6.7%	7.9%	13.1%	12.8%	15.9%	12.9%	10.5%

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

**CITY OF WATSONVILLE, CALIFORNIA**

**General Governmental Tax Revenues By Source**

**Last Ten Fiscal Years**

(modified accrual basis of accounting)

(amounts expressed in thousands)

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Franchise Tax</b>	<b>Motor/Vehicle Tax</b>	<b>Utility User Tax</b>	<b>Other Tax</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
2001	8,096	6,848	1,134	2,323	2,872	1,719	22,992
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

**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						
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
2001	1,396,388	369,960	N/A	195,758	N/A	85,847	1,876,259	1.14	2,992,439	0.63
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

Notes: 1. For comparison purpose, real property - residential property valuation include homeowners' exemptions.

2. Estimated actual value is derived from a series of calculations comparing median assessed values from 1940 to current median sales prices. Based on these calculations a multiplier value was extrapolated and applied to the current assessed value.

Source: County of Santa Cruz Auditor Controller, MuniServices LLC

**CITY OF WATSONVILLE, CALIFORNIA**

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

<b>Year</b>	<b>Basic Countywide Levy</b>	<b>School Districts</b>	<b>Retirement</b>	<b>Total</b>
2001	1.00000	0.022	0.120	1.14200
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

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

**CITY OF WATSONVILLE, CALIFORNIA**  
**Principal Property Taxpayers**  
**June 30, 2010**  
(amounts expressed in thousands)

	2010			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$		%	\$		%
Watsonville Hospital Corp.	60,429	1	1.88	51,963	1	3.52
S. Martinelli Co.	29,449	2	0.92	19,407	2	1.32
Granite Construction Co.	21,055	3	0.66	19,300	3	1.31
Hd Development of Maryland Inc	18,189	4	0.57			
OW George Jr. Trustee, etal	17,548	5	0.55			
WRI Freedom Center LP	16,045	6	0.50	11,284	10	0.77
Albertsons Inc.	15,906	7	0.50	13,840	6	0.94
Target Stores	15,852	8	0.49			
Watsonville Square Llc	14,835	9	0.49	12,932	7	0.88
Cascade Properties Llc	14,323	10	0.45			
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>223,631</u>		<u>7.01</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**

<b>Fiscal Year</b>	<b>General Current</b>	<b>General Prior</b>	<b>Retirement Current</b>	<b>Total</b>
	\$	\$	\$	\$
2001	2,796,039	-	1,695,895	4,491,934
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

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 Obligation Debt</u>	<u>Special Assessment Debt</u>	<u>Capital Leases</u>	<u>Revenue Bonds</u>	<u>General Obligation Debt</u>	<u>Capital Leases</u>			
	\$	\$	\$	\$	\$	\$			
2001	3,431	711	150	23,670	2,193	3,743	33,898	4.82%	0.711
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

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)

<b>Fiscal Year</b>	<b>General Obligation Debt</b> \$	<b>Less: Amounts Available in Debt Service Fund</b> \$	<b>Total</b> \$	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b> \$
2001	33,187	114	33,073	1.11%	144
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

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>2001</u>	<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>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	65,465	68,357	87,262	96,175	112,437	118,450	118,487	142,972	135,408	120,357
Total net debt applicable to limit	3,317	4,408	3,970	29,213	27,296	27,301	26,494	26,399	25,535	26,001
Legal debt margin	<u>62,148</u>	<u>63,949</u>	<u>83,292</u>	<u>66,962</u>	<u>85,141</u>	<u>91,149</u>	<u>91,993</u>	<u>116,573</u>	<u>109,873</u>	<u>94,356</u>
Total net debt applicable to the limit as a percentage of debt limit	5.067%	6.448%	4.550%	30.375%	24.277%	23.049%	22.360%	18.464%	18.858%	21.603%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$3,209,515
Add back: exempt real property	
Total assessed value	<u>3,209,515</u>
Debt Limit = 3.75% of assessed valuation	120,357
Debt applicable to limit	26,895
Less: Amount set aside for repayment of general obligation debt	<u>894</u>
Total net debt applicable to limit	<u>26,001</u>
Legal debt margin	<u><u>\$94,356</u></u>

**CITY OF WATSONVILLE, CALIFORNIA**

**Computation of Direct and Overlapping Bonded Debt  
June 30, 2010**

(amounts expressed in thousands, except per capita amount)

<b>Jurisdiction</b>	<b>Total Debt Outstanding</b>	<b>Percentage Applicable</b>	<b>Estimated Share of Overlapping Debt</b>
	\$		\$
<b>Direct:</b>			
City of Watsonville	72,706	100%	72,706
<b>Overlapping Debt:</b>			
City of Watsonville 1915 Act Bonds	773	100%	773
Cabrillo Joint Community College District	173,001	9.03%	15,627
Pajaro Valley Unified School District	57,813	23.16%	13,389
Pajaro Valley Unified School District Certificates of Participation	2,820	23.16%	653
Cabrillo Joint Community College District Certificates of Participation	2,430	9.03%	220
Santa Cruz County Certificates of Participations	71,001	9.15%	6,499
Monterey Bay Unified Air Pollution Control Authority	2,740	3.23%	89
<b>Total</b>	<u><u>383,284</u></u>		<u><u>109,956</u></u>

(1) Excluding tax and revenue anticipation notes, enterprise 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**

---

<b>Fiscal Year</b>	<b>Gross Revenues</b>
	\$
2000-01	1,870,381
*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	2,221,643

Library Certificates of Participation outstanding  
as of 6-30-10 \$3,135,000.

Total Library revenues received from Measure B Taxes  
as of 6/30/10 \$27,672,318

\* 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

---

<b>Fiscal Year</b>	<b>Gross Revenues</b>	<b>Debt ** Service</b>	<b>Coverage</b>
	\$	\$	
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*	2,221,643	1,046,000	212.39%

\* 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**

<b>Fiscal Year</b>	<b>Gross Revenues</b>	<b>Direct Operating Expenses</b>	<b>Net Revenues available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage</b>
	\$	\$	\$	\$	
<b>2000-01</b>	6,495,620	4,073,365	2,422,255	728,404	332.54%
<b>2001-02</b>	6,551,010	5,073,608	1,477,402	728,234	202.87%
<b>2002-03</b>	8,025,689	5,214,380	2,811,309	730,671	384.76%
<b>2003-04</b>	8,651,909	5,623,077	3,028,832	732,256	413.63%
<b>2004-05</b>	8,823,153	6,230,007	2,593,146	732,396	354.06%
<b>2005-06</b>	9,444,900	6,838,936	2,605,964	723,476	360.20%
<b>2006-07</b>	19,240,472	6,438,844	12,801,628	723,676	1768.97%
<b>2007-08</b>	32,555,179	6,433,291	26,121,888	734,001	3558.84%
<b>2008-09</b>	17,406,267	7,456,703	9,949,564	731,276	1360.58%
<b>2009-10</b>	11,032,952	6,976,170	4,056,782	731,995	554.21%

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

Debt service is for the next fiscal year.

Source: City of Watsonville

**CITY OF WATSONVILLE, CALIFORNIA**

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

<b>Fiscal Year</b>	<b>(1) Gross Revenues</b>	<b>(2) Direct Operating Expenses</b>	<b>Net Revenues available for Debt Service</b>	<b>(3) Debt Service</b>	<b>Coverage</b>
	\$	\$	\$	\$	
<b>2010-11</b>	9,356,261	7,605,837	1,750,424	735,000	238.15%
<b>2011-12</b>	9,356,261	7,605,837	1,750,424	735,000	238.15%
<b>2012-13</b>	9,356,261	7,757,954	1,598,307	735,000	217.46%
<b>2013-14</b>	9,356,261	7,913,113	1,443,148	735,000	196.35%
<b>2014-15</b>	9,356,261	8,071,375	1,284,886	735,000	174.81%

(1) Based on total actual 2009-10 water revenues, less payment for grant revenue of \$1,676,691.

(2) Unbudgeted operating expenses are assumed to inflate by two percent annually.

(3) Assumes that no additional Bonds will be issued. Maximum annual debt service.

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

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

Source: City of Watsonville

**CITY OF WATSONVILLE, CALIFORNIA**

**Ten Largest Customers and Percentage of Total  
Water Revenues  
Fiscal Year 2009-10**

<b>User</b>	<b>Revenues</b>	<b>Percentage of Total</b>
	<b>\$</b>	<b>%</b>
<b>1</b> Pajaro Valley Unified School District	102,816	1.35
<b>2</b> Martinelli & Company	91,682	1.21
<b>3</b> Meadows Manor Apartments	52,720	0.69
<b>4</b> Sunny Meadow Apartments	48,338	0.64
<b>5</b> Pinto Lake Mobile Estates	41,924	0.55
<b>6</b> Blue Ribbon Frozen Foods	34,015	0.45
<b>7</b> Francis Property MTMT Inc.	24,460	0.32
<b>8</b> H A Rider & Son	22,445	0.30
<b>9</b> Green Valley Village	21,459	0.28
<b>10</b> Farmer's Processing	19,677	0.26
 Total Top Ten	<u>459,536</u>	<u>0.06</u>
 Total Revenues	<u><u>7,595,900</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**

<b>Year</b>	<b>Single/Multiple Family Residential</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Other</b>	<b>Totals</b>
<b>2000</b>	11,089	1,227	35	757	13,108
<b>2001</b>	11,196	1,258	34	709	13,197
<b>2002</b>	11,226	1,354	33	564	13,177
<b>2003</b>	11,474	1,293	32	743	13,542
<b>2004</b>	11,920	1,445	31	599	13,995
<b>2005</b>	13,602	1,285	21	498	15,406
<b>2006</b>	13,749	1,432	24	633	15,838
<b>2007</b>	13,768	1,357	13	350	15,488
<b>2008</b>	14,018	1,405	20	353	15,796
<b>2009</b>	12,675	1,526	19	353	14,573

Source: City of Watsonville

**CITY OF WATSONVILLE, CALIFORNIA**

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

<b>Calendar Year</b>	<b>Gallons Delivered (1)</b>
<b>2001</b>	2,347.6
<b>2002</b>	2,373.1
<b>2003</b>	2,306.1
<b>2004</b>	2,542.8
<b>2005</b>	2,288.3
<b>2006</b>	2,366.3
<b>2007</b>	2,366.3
<b>2008</b>	2,387.4
<b>2009</b>	2,641.2
<b>2010</b>	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>
2000	38,084	567,443	14,900	27.4	21,782	10.30%
2001	47,707	703,168	14,756	N/A	21,947	11.60%
2002	47,936	704,593	14,715	N/A	21,931	12.70%
2003	47,950	703,105	14,680	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%

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>2010</u>			<u>2000</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	2	4.30%
Fox Factory	400	3	2.65%			0.00%
City of Watsonville *	374	4	2.48%	524	4	3.34%
West Marine Products	279	5	1.85%	450	8	
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	3	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%
<b>Total</b>	<u><u>4,672</u></u>		<u><u>30.99%</u></u>	<u><u>6,592</u></u>		<u><u>35.48%</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**

<b>Function</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
General Government	12.00	12.00	18.50	18.50	18.50	19.00	7.50	7.00	7.00
City Clerk	N/A	N/A	N/A	N/A	N/A	N/A	4	4.00	4.00
Community Development	16.50	16.50	17.50	17.50	17.50	18.50	17.00	19.00	16.00
Finance	20.75	24.00	17.00	17.00	17.00	17.00	23.75	24.75	24.75
Fire	32.75	36.75	35.75	35.00	35.00	35.00	36.00	40.00	40.00
Police									
Officers	67.00	67.00	67.00	64.00	64.00	64.00	72.00	73.00	75.00
Civilians	21.00	21.00	21.00	24.50	24.50	24.50	20.00	21.00	21.00
Library	21.50	21.50	25.75	25.75	25.75	25.75	25.50	25.50	24.50
Parks & Community Services	26.25	30.50	35.75	35.75	35.75	35.75	36.50	38.00	36.50
Public Works	25.25	25.25	26.00	26.00	26.00	26.00	26.00	26.00	23.50
Airport	4.75	4.75	4.75	4.75	4.50	4.50	6.50	6.50	6.50
Enterprise Community	3.00	2.00	-	-	-	-	-	-	-
Neighborhood Services	2.00	2.00	-	-	-	-	-	-	-
LLMAD	-	-	-	-	-	1.00	1.00	1.00	1.00
Parking Garage	-	0.05	0.05	0.05	0.05	2.05	2.05	2.00	3.00
Redevelopment and Housing	11.00	10.95	9.45	9.95	9.95	9.95	6.95	7.50	7.50
Solid Waste	28.40	28.40	31.00	31.00	31.00	33.00	36.40	37.40	36.40
Wastewater	34.00	34.00	33.00	33.00	36.00	36.00	35.00	38.00	38.25
Water	21.00	21.00	24.00	24.00	24.00	26.00	25.00	27.00	27.25
	<b>347.15</b>	<b>357.65</b>	<b>366.50</b>	<b>366.75</b>	<b>369.50</b>	<b>378.00</b>	<b>381.15</b>	<b>397.65</b>	<b>392.15</b>

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

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

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

**CITY OF WATSONVILLE, CALIFORNIA**

**Operating Indicators by Function  
Last Ten Fiscal Years**

<b>Function</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>General Government:</b>										
City Council meetings	25	21	25	25	24	27	24	21	27	23
Resolutions processed	386	315	384	385	320	249	311	243	232	186
Recruitments	44	53	27	31	43	25	42	29	25	12
<b>Community Development:</b>										
Planning application reviews	207	345	400	500	520	425	486	543	451	373
Construction inspections	6,352	3,204	4,548	13,225	9,006	7,000	6,208	4,361	3,344	2,470
Building Permits	600	835	1,184	1,239	918	1,160	978	727	1032	1,757
									4,827	4,600
<b>Finance:</b>										
Payroll checks issued	10,024	12,947	12,917	13,733	13,548	12,980	12,188	13,477	13,446	13,344
Utility accounts	13,175	13,280	13,091	13,274	14,035	14,433	14,466	15,541	14,546	15,980
A/P checks issued	7,978	8,864	9,336	9,063	9,155	9,198	9,560	9,054	8,697	9,988
<b>Fire:</b>										
Field incidents dispatched	3,206	3,312	3,312	3,354	3,065	3,367	3,459	3,889	3,552	3,896
<b>Library:</b>										
Items used/checked out	322,000	351,136	342,476	379,332	385,010	390,000	337,018	395,000	397,428	257,195
<b>Parks &amp; Community Services:</b>										
Facility Drop In Totals	3,336	2,620	1,768	1,364	1,494	1,187	1,524	1,824	2,671	1,386
<b>Police:</b>										
Moving and Parking Citations	11,271	12,372	12,366	13,248	14,387	16,567	15,926	14,854	15,807	16,709
Service Calls Dispatch	55,659	57,183	62,000	57,667	54,819	58,559	61,745	81,281	81,303	61,643
URC Crime Rate	42	48	48	50	43	46	46	52	43	42
(# crimes/1,000 population, calendar years)										
<b>Wastewater:</b>										
Annual volume of septage treated (in million gallons)	7.62	7.62	7.62	7.62	9.62	9.62	4.90	7.11	7.17	7.45
<b>Water:</b>										
Water production (acre feet)	7,615	7,683	7,588	7,804	7,574	7,915	8,481	8,634	8,806	8,834
<b>Solid Waste:</b>										
Refuse handled (tons)	31,400	31,965	30,029	35,133	37,935	42,789	39,334	36,539	31,484	35,179
Recycled material (tons)	4,004	5,526	4,632	5,305	5,540	5,554	5,560	5,913	6,016	6,023

Source: City of Watsonville departments

**CITY OF WATSONVILLE, CALIFORNIA**

**Capital Assets Statistics by Function  
Last Ten Fiscal Years**

<b>Function</b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
<b>Fire:</b>										
Stations	2	2	2	2	2	2	2	2	2	2
<b>Police:</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	18	18	18	18	18	18	19	19	18
Patrol motorcycles	2	4	4	5	5	5	5	5	5	6
<b>Library:</b>										
Buildings	2	2	2	2	2	2	2	2	2	2
<b>Parks &amp; Community Services:</b>										
Parks	17	17	17	21	21	21	24	21	21	21
Acreage of parks	62.5	62.5	62.5	65.0	65.0	65.0	85.0	65.0	85.0	65.0
Community Centers	4	5	5	5	5	6	6	6	6	6
<b>Public Works:</b>										
Miles of streets	83	83	85	85	96	96	96	96	96	96
<b>Airport:</b>										
Runways	2	2	2	2	2	2	2	2	2	2
<b>Wastewater:</b>										
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
<b>Water:</b>										
Maximum pumping capacity*	19.6	19.6	19.6	19.6	19.6	19.6	19.6	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	7.0	6.3	6.3	6.3
<b>Solid Waste:</b>										
Collection trucks	13	13	13	13	13	13	20	20	20	20

Source: City of Watsonville departments