

Comprehensive Annual Financial Report



**City of Watsonville, California
Fiscal Year Ending June 30, 2009**

City of Watsonville, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Prepared by the Finance Department
Marc Pimentel, Administrative Services Director



CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2009

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, 2009

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 911 Revenue Funds	97
Rental Rehabilitation Grants and Library Funds	98
Measure E Sales Tax and Parks Development Funds	99
Retirement Tax and Redevelopment Funds	100
Parking Garage and Business Booster Loan Program Funds	101
Abandoned Vehicle and Affordable Housing Funds	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):

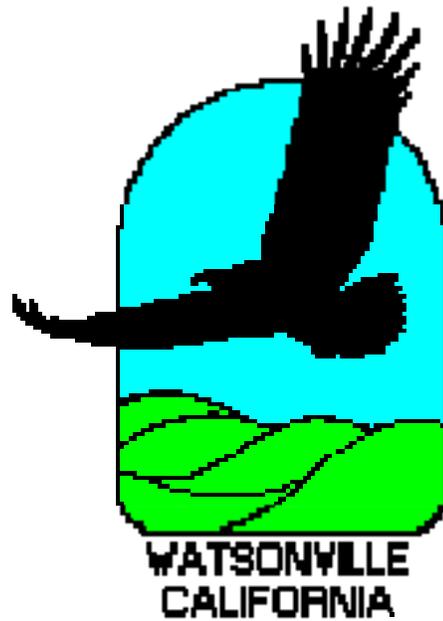
Net Assets By Component - Last Eight Fiscal Years	108
Changes In Net Assets - Last Eight Fiscal Years	109
Governmental Activities Tax Revenues By Source - Last Eight Fiscal Years	111
Fund Balances of Governmental Funds - Last Ten Fiscal Years	112
Fund Balances of Governmental Funds - Last Ten Fiscal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

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2008

TABLE OF CONTENTS (Continued)

Estimated Water Revenue Bond Coverage - Next Five Fiscal Years	125
Ten Largest Customers and Percentage of Total Water Revenues	126
Water Service Accounts - Last Ten Calendar Years	127
Service Area Water Deliveries - Last Ten Calendar Years	128
Sewer Revenue Bond Coverage - Last Ten Fiscal Years	129
Estimated Sewer Revenue Bond Coverage - Next Five Fiscal Years	130
Ten Largest Customers and Percentage of Total Sewer System Revenues . .	131
Sewer Service Accounts - Last Ten Calendar Years	132
Solid Waste Revenue Bond Coverage - Last Ten Fiscal Years	133
Estimated Solid Waste Revenue Bond Coverage - Next Five Fiscal Years .	134
Ten Largest Customers and Percentage of Total Solid Waste System Revenues	135
Estimated Solid Waste Deposited - Last Ten Calendar Years	136
Demographic and Economic Statistics - Last Ten Fiscal Years	137
Principal Employers – Current Fiscal Year and Nine Years Ago	138
Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years	139
Operating Indicators by Function - Last Ten Fiscal Years	140
Capital Assets Statistics by Function - Last Ten Fiscal Years	141

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, 2009

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, 2009.

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 reasonable assurance that the financial statements of the City of Watsonville for the fiscal year ended June 30, 2009, 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, 2009, 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 51,555 people as of January 1, 2009.

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 92.

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.

More recently, the ripple from the recession, the growing unemployment rate and declining housing market has hurt the Watsonville economy to a greater extent than the other communities in this coastal region. Since its peak in 2006, the median sale price for a single family home has dropped 61% (from \$675,000 to \$266,000). 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 505 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 111 homes. Generally it would be an encouraging sign to see the significant increase in calendar 2008 and 2009 (through November) home sales to a total of 347 and 389 respectively. However, many of these sales can be attributed to short sales from foreclosures indicating that traditional home values may still be unsteady.

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 2008/09 jumped to 20.3% for Watsonville and 9.7% 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.

The future of Watsonville will be shaped by similar types of development that occurred in the past, leading to a broader economic base. In the latter half of the 1990s, a major shopping center was opened and initial plans for 1,000 new dwelling units were approved. In the last five years, Home Depot, Applebee's and Ross Dress-for-Less were opened along with a new High School, Middle School and Elementary School.

In the past few years, several major projects have been or almost fully completed. They included a new 4-story Civic Plaza building downtown with a 6-level attached parking garage, several new major bridges as well as an almost completed Water Recycle Treatment Plant and Water Operations Center. In the near future, a major commercial project will take shape as the result of a prior 89+ acre annexation known as Manabe-Ow. These projects are discussed in more detail later.

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.

General Fund Property tax (excluding triple flip components) experienced an average annual growth rate of 15.6% between 2004/05 and 2006/07. Revenue grew by 3.8% in 2007/08 but declined sharply in 2008/09 by 6.1%. Out year projections show a continued decline of 10%-11% and 7% for 2009/10 and 2010/11 respectively. These declines are attributed to declining housing market as previously discussed.

Sales Tax revenue had been a relatively stable revenue source prior to the recession but has since been declining steadily. After removing the impacts of a new ¼-cent sales tax approved by voters in 2006, net sales tax receipts declined by 7.6% and 14.0% in 2007/08 and 2008/09 respectively. Our projections for 2009/10 show a continued decline between 5.5% and 7%.

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.

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 will be faced with various revenue losses in the coming years driven by local, state and national factors. Most of these losses will impact its General Fund.

Locally, the declining housing market and rising unemployment are projected to severely impact the City's 2009/10 General Fund. It is possible that of its top 5 revenues, which make up 64.2% of all General Fund revenues, 4 will continue to decline in 2009/10.

Property tax will continue to decrease at levels not seen since perhaps the late 1970's and passage of proposition 13. Sales tax will continue to decline as spending capacity drops with the rise in Watsonville's unemployment rate and demise of equity positions in residential properties. In line with the pressures on disposable income, vehicle license fees have dropped significantly as vehicle sales remain very low. Utility user taxes could also decrease 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 \$20 billion deficit projected through 2010/11.

For the 2009/10 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 \$4.5 million projected General Fund deficit for 2009/10 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 the June 23, 2009 transmittal letter for the 2009/10 - 2010/11 Biennial Budget.

As referenced already, California's currently projected \$20 billion deficit through fiscal year 2010/11 could result in substantial takeaways from the City of Watsonville.

Fortunately, the passage of proposition 1A in November 2004 added new constitutional protections to the City's revenues from such State takeaways. In 2009, the State enacted a provision included in this measure that, with the required two-thirds vote by the legislature, borrowed \$851,369 in property tax from the City. To offset this loss, the City participated in the joint securitization program through the California Statewide Communities Development Authority's "Proposition 1A Securitization Program." This allowed the City to sell its receivable from the State of California for 100% of the amount that was taken by the State. By enacting this provision, the State can only borrow once more in the next 10-years and would first be required to pay back the entire 2009 borrowing (\$2 billion).

But even with this protection, there are still many opportunities for the State to take City resources through various reallocation scenarios or directly by reducing public safety funding. Any new State raids will only increase the size of the City's 2010/11 projected General Fund deficit.

The City continues to actively seek out and plan for opportunities to spur local development and economic growth.

As mentioned previously, the City of Watsonville, working with the County of Santa Cruz and the State of California completed its \$51 million dollar Civic Center and parking garage project. This project will help support the downtown economy as well as open the door to new services and job opportunities for Watsonville residents. For its share of costs, the City obtained several Federal Grants and also issued the 2004 Library Measure E Sales Tax Revenue bonds and the Watsonville Redevelopment Agency issued Redevelopment Tax Increment Revenue bonds.

The City has also completed two critical connector bridges between its industrial and retail centers; the Watsonville Slough Bridge and the Struve Slough Bridge. These

bridges provide better transportation options for current as well as new prospective companies.

The City's Water Enterprise Fund is nearing completion of a water recycling facility and operations center with an estimated cost of \$47 million. This project will 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.

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 preparing a Specific Plan and appropriate environmental review for the development of 65 acres of net developable land for light industrial, research, and office purposes with a small component of retail and workforce housing. 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 pursue this area for development until the next housing element cycle beginning in 2014.

Cash management policies and practices. Cash temporarily idle during the fiscal year was invested in obligations of the U.S. Treasury, government agencies, and the State Treasurer's Local Agency Investment Fund (LAIF). The maturities of the investments generally range from 6 months to 3 years, with the portfolio's average maturity being approximately 7 months during typical investment periods. The average yield on investments is slowly decreasing; for the current fiscal year, it averaged 1.91%. Investment income includes appreciation in the fair value of investments. Increases in the fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity,

Risk management. During 2008/2009, the City of Watsonville maintained a risk management program to handle liability and workers' compensation claims and provide a health plan for the City of Watsonville employees. The fund's objective is to accumulate resources sufficient to pay current and future losses. In addition, the City purchases excess insurance for health claims above \$75,000, worker's compensation claims above \$150,000, and liability claims above \$500,000.

The City is a member of the Public Agency Risk Sharing Authority of California

(PARSAC). This Agency ensures consistent liability costs for the City as it jointly purchases excess insurance with this insurance pool. Further, the City annually conducts safety inspections, staff training, as well as consulting with other member cities on ways to reduce potential risks. At the end of the fiscal year, the City had set-aside \$3.5 million to pay for present and future claims not covered by excess insurance. Additional information on the City of Watsonville's risk management activity can be found in Note V.B, page 79 of the notes to the financial statements.

Pension and other post-employment benefits. The City of Watsonville contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Watsonville must make to the pension plan to ensure that the plan will be able to fully fund its obligations to retired employees on a timely basis. As a matter of policy, the City of Watsonville fully funds each year's annual required contribution to the pension plan as determined by the actuary. The pension plan's unfunded accrued liability is being amortized as a level of percentage of projected payroll on a closed basis.

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Plan Pensions". The Statement is effective for periods beginning after December 15, 2007 for a Phase II government. This Statement establishes standards for measurement, recognition, and display of *other postemployment benefits* (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Additional information on the City of Watsonville's pension arrangements and postemployment benefits can be found in Notes V. – E/F, pages 81 to 84 in the notes to the financial statements.

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, 2008. This was the ninth 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 May 25, 2007. 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 seven 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, Joseph Chavez, Rosie Guerrero, Susanne Harper, Lety Hernandez, Yvette Herrera, Letty Galvan, Mark Lamoreaux, Kevin Lew, Christine McGrath, Diana Mello, 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

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, 2008

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, 2009

City Council:

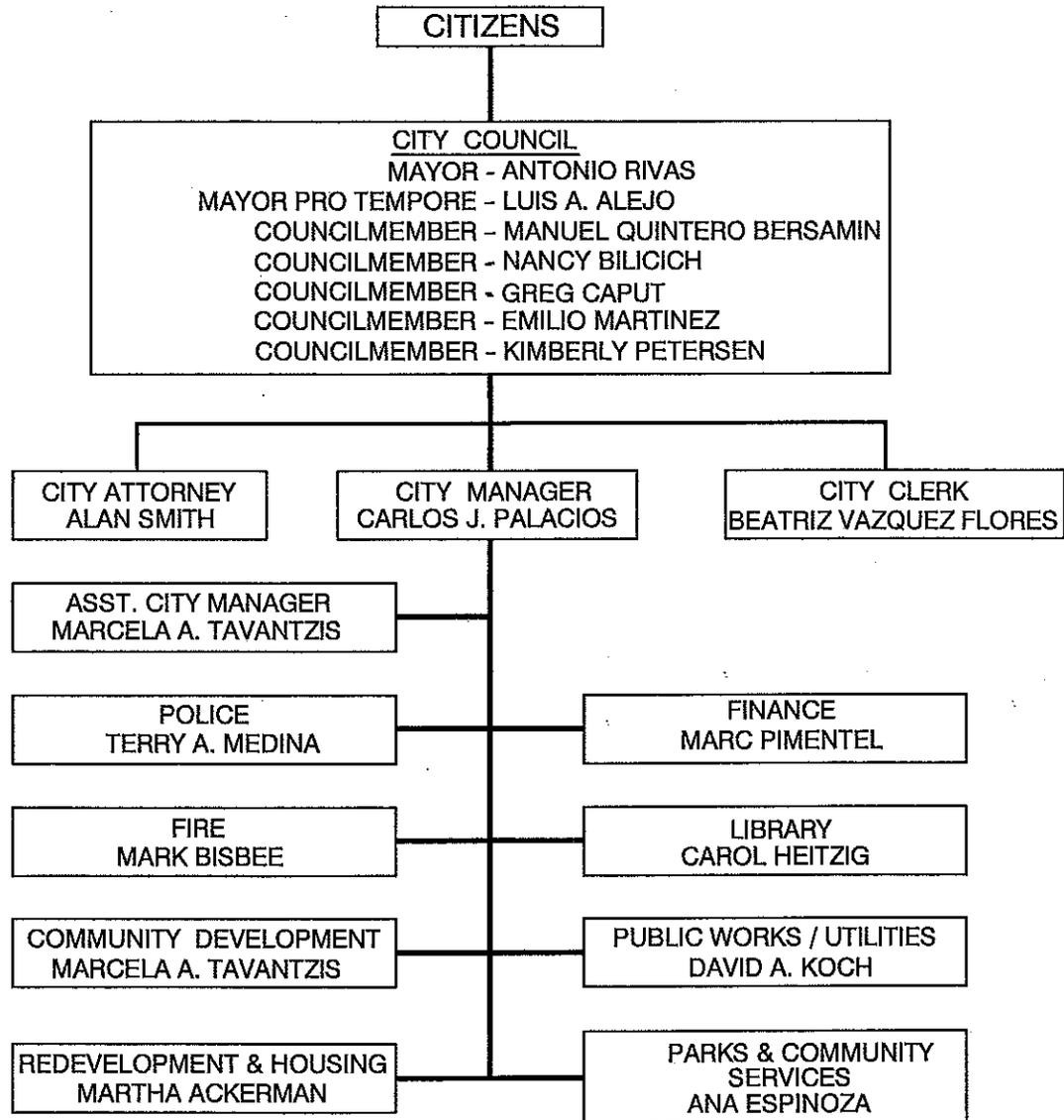
Mayor – Antonio Rivas
Mayor Pro Tempore – Luis A. Alejo
Council Member – Manuel Quintero Bersamin
Council Member – Nancy Bilicich
Council Member – Greg Caput
Council Member – Emilio Martinez
Council Member – Kimberely Petersen

City Officials:

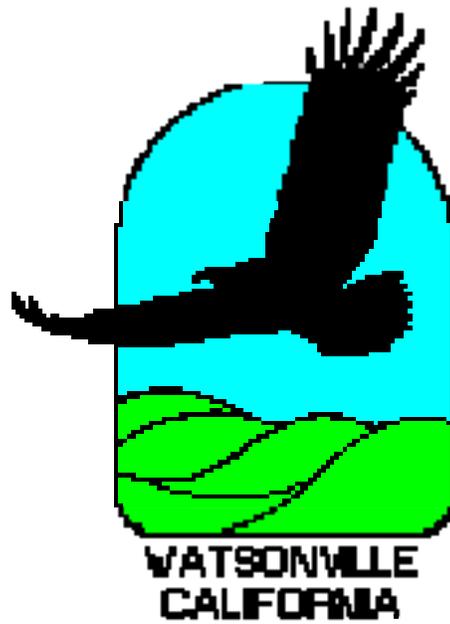
City Manager – Carlos J. Palacios
Assistant City Manager – Marcela A. Tavantzis
City Clerk – Beatriz Vazquez Flores
Fire Chief – Mark Bisbee
Police Chief – Terry A. Medina
Public Works and Utilities Director – David A. Koch
Administrative Services Director – Marc Pimentel
Library Director – Carol Heitzig
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

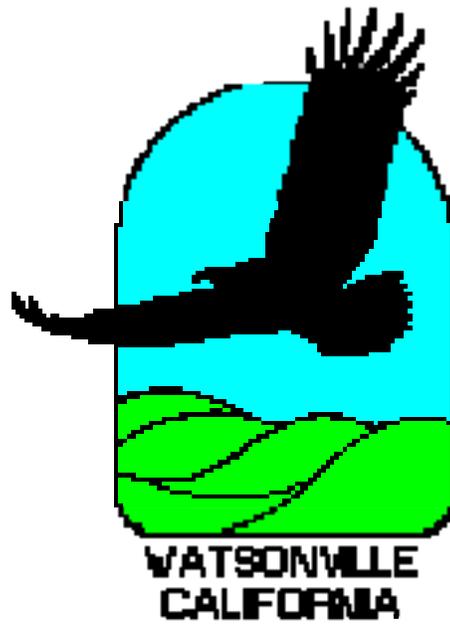


This Page Left Intentionally Blank



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, 2009, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2009, 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 4 of the notes to basic financial statements effective July 1, 2008, the City of Watsonville adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Pensions*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*.

The Management's Discussion and Analysis on pages 19 through 30, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

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 17, 2009, 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

A handwritten signature in cursive script that reads "Moss, Levy & Hartzheim LLP".

December 17, 2009

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, 2009. 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 - 10 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 \$270,739. Of this amount, \$58,015 (unrestricted net assets) may be used to meet the government's obligations to citizens and creditors.
- The government's total restated net assets increased by \$7,412. Investment in capital assets, net of related debt increased by \$18,965, restricted funds decreased by \$184 and unrestricted decreased by \$11,166. The major reason for the decrease in unrestricted net assets was the decline of governmental revenues of \$12,806 and the increase in investment in capital assets net of related debt was the increase in construction in progress for the continues work on the new water recycling project.
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balances of \$26,220, an increase of \$3,224 in comparison with the prior fiscal year restated balances. Approximately 51% of this amount, \$13,341 is reserved for a specific purpose. Another 49% of this amount, \$12,807 is available for spending at the government's discretion (unreserved) within certain restrictions (such as \$6,539 restricted for "Low Income" housing; and \$300 for impact fees projects).
- At the end of the current fiscal year, the City meets the charter reserve of \$2,450 of the general fund or 6% of total general fund expenditures.

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 89 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 \$270,739 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net assets (68%) 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, 2009
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Current and other assets	61,086	59,072	61,395	71,988	122,481	131,060
Capital assets	137,320	131,649	104,769	94,191	242,089	225,840
Total Assets	198,406	190,721	166,164	166,179	364,570	356,900
Long-term liabilities outstanding	29,225	29,755	42,047	43,451	71,272	73,206
Other Liabilities	15,408	14,189	7,151	6,380	22,559	20,569
Total Liabilities	44,633	43,944	49,198	49,831	93,831	93,775
Net Assets:						
Invested in capital assets, net of related debt	108,016	109,668	77,217	56,600	185,233	166,268
Restricted	23,467	31,184	12,627	5,094	36,094	36,278
Unrestricted	22,290	5,924	27,122	54,654	49,412	60,578
Total Net Assets	153,773	146,776	116,966	116,348	270,739	263,124

An additional portion of the City of Watsonville's net assets (13%) 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 \$49,412 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.

City of Watsonville
Change in Net Assets
For the Fiscal Year Ending June 30, 2009
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	12,850	13,690	29,370	43,055	42,220	56,745
Operating grants and contributions	5,220	12,850	669	812	5,889	13,662
Capital grants and contributions	1,737	3,436	1,393	6,309	3,130	9,745
General Revenues						
Property taxes	20,759	21,352	-	-	20,759	21,352
Other taxes	14,931	16,660	-	-	14,931	16,660
Others	1,126	1,441	3,780	2,142	4,906	3,583
Total Revenues	56,623	69,429	35,212	52,318	91,835	121,747
Expenses:						
General government	13,132	13,913	-	-	13,132	13,913
Public safety	24,161	24,623	-	-	24,161	24,623
Housing	1,413	2,879	-	-	1,413	2,879
Streets	4,686	5,643	-	-	4,686	5,643
Culture and recreation	3,154	5,319	-	-	3,154	5,319
Interest on debt	3,384	3,602	-	-	3,384	3,602
Water	-	-	13,871	10,295	13,871	10,295
Sewer	-	-	8,886	8,517	8,886	8,517
Solid waste	-	-	8,873	8,373	8,873	8,373
Airport	-	-	2,863	2,642	2,863	2,642
Total Expenses	49,930	55,979	34,493	29,827	84,423	85,806
Change in net assets	6,693	13,450	719	22,491	7,412	35,941
Net assets - beginning	146,776	130,940	116,348	96,636	263,124	227,576
Prior year adjustments	304	2,386	(101)	(2,779)	203	(393)
Net assets - beginning restated	147,080	133,326	116,247	93,857	263,327	227,183
Net assets ending	153,773	146,776	116,966	116,348	270,739	263,124

The government's restated net assets increased by \$7,412 during the current fiscal year. The government's governmental activities had an increase in restated net assets of \$6,693. The government's governmental investment in capital assets net of related debt had a decrease of \$1,652. 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.

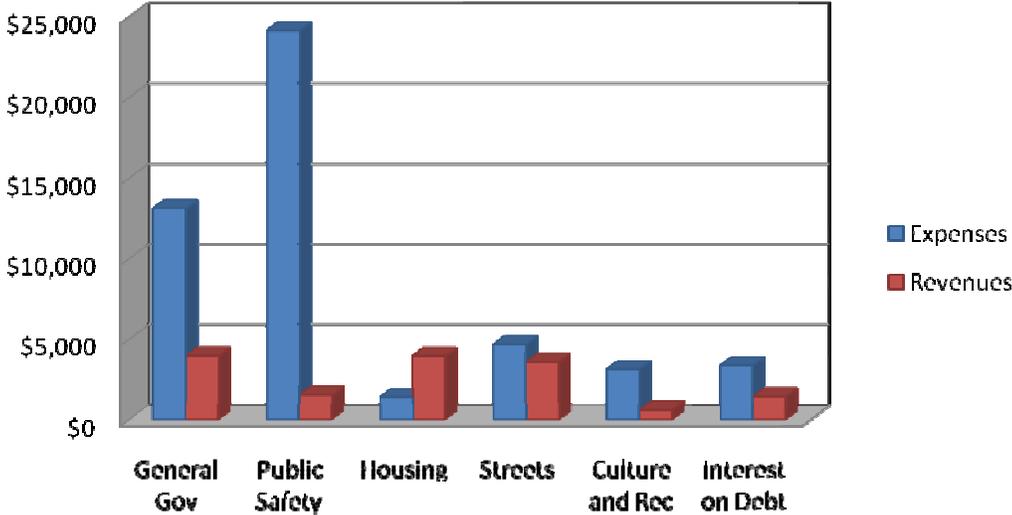
The government's business-type restated net assets increased by \$618. All of the increase in business-type activities was from the Water Fund. Most of the increase was a payment for future water sales from Pajaro Valley Water Management Agency for water that will be generated for the new Watsonville Area Recycling Project. The remainder of this growth largely reflects rate increases and operating cost decreases.

Governmental Activities. Governmental activities increased the City of Watsonville's restated net assets by \$6,693, thereby accounting for 90% of the total gain in the net assets of the City of Watsonville. Key elements of this increase are as follows:

- Overall governmental operating expenses decreased by (\$6,049) (11%) during the fiscal year. With the decrease in overall governmental revenues, each department was asked to reduce operating budgets by at least 10%.
- Housing expenses decreased by (\$1,264) during the fiscal year. The majority of this decrease was within the Redevelopment and Housing Grants Fund with about of \$1.5 million in federal grant activity this year and \$2.7 million in federal grant activity last fiscal year.
- Operating grants decreased by (\$7,630) (60%) during the current year. This decrease was spread out across the various governmental activities, with housing activities receiving (\$3,058) less in grant reimbursement and streets activities receiving (\$2,202) less in grant reimbursements.

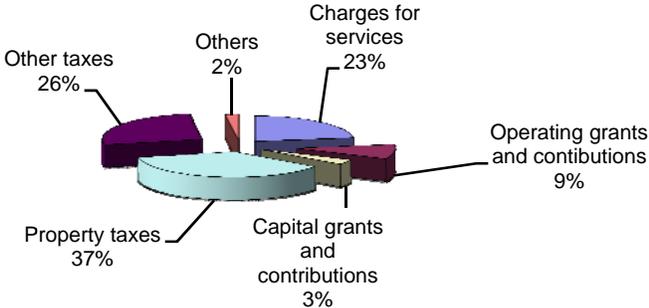
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities

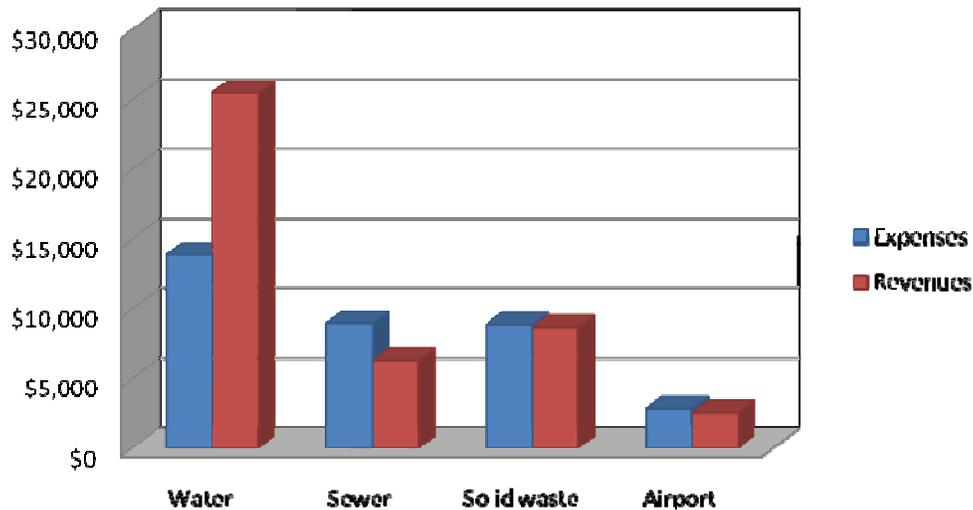


Expenses for general government, public safety, housing, streets, culture and recreation and interest on debt decreased during the fiscal year. General government operations decreased due to decreased staffing costs related to salaries. Public safety expenses decreased due to staffing decreases (frozen police officer positions) and loss of an operating grant. Streets operations decreased due to the loss of operating grants and decrease in staffing costs. Culture and recreation decreased due to staffing cost declines with the closure of the library building during the fiscal year. Interest on debt decreased with the decrease in interest and fiscal charges for the City of Watsonville’s Redevelopment Agency’s debt.

Business-type activities. Business-type activities increased the City of Watsonville’s restated net assets by \$719, accounting for 100% of the total growth in the government’s net assets. Key elements of this increase are discussed on the next page.

Expenses and Program Revenues

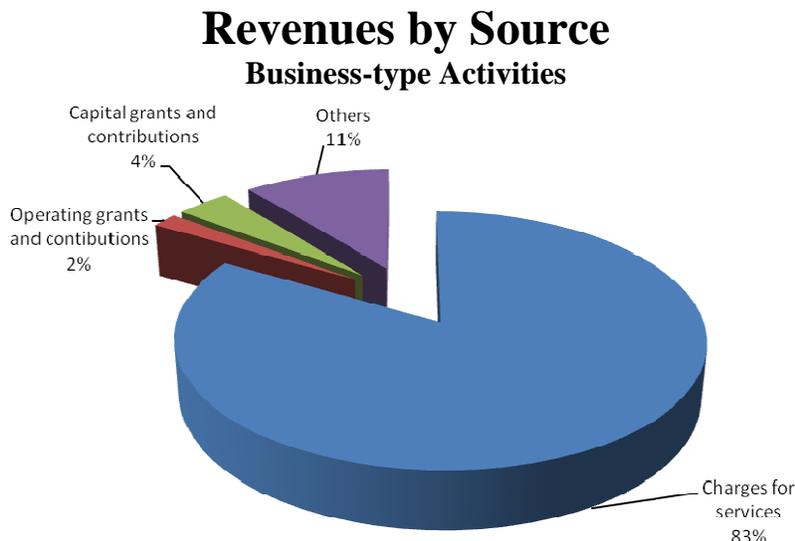
Business-type Activities



- Charges for services for business-type activities decreased by 32%. 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 \$319, 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 \$369, due mainly from the opening of the Water Recycling Operation Division during the current fiscal year. This new project produced 845 acre feet of irrigation water for farming during the fiscal year.
- Operating costs in the Water Fund increased by \$3,576, due mainly from several non

capitalized projects and interest expense from the new 2007 revenue bonds.

- Operating costs in the other enterprise funds closely paralleled inflation and growth in the demand for services during the fiscal year.



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 \$26,220, an increase of \$3,224 in comparison with the prior restated fund balances. Almost half of this total amount \$12,879 constitutes unreserved – designated/undesignated fund balances, which is available for spending at the government's discretion. The largest portion of the reserved fund balances is for debt service \$8,119. Most of this balance is in reserve funds help 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 \$743; 2) reserved by charter \$2,450; 3) reserved for land held for resale \$1,484; 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 7.4 percent of the same amount.

The restated fund balance of the City of Watsonville’s General Fund decreased by \$4,223 during the current fiscal year. Key factors in this decrease are as follows:

- The General Fund total revenue collection was \$3,107 less than budgeted revenues, with taxes; licenses, permits and fees; and charges for services revenues experiencing the largest losses (\$2,236, \$781, and \$203 respectively).
- Public safety exceeded its operating budget by \$460. Most of this was due to overtime in both police and fire departments exceeding their budgeted amounts as they were both under staffed during the fiscal year.
- Capital project costs did not occur to the degree budgeted, leaving \$3,149 in costs to be carried over to the subsequent year and reappropriated.

The Impact Fees Fund has a positive fund balance of \$300, an increase of \$1,999 for the fiscal year. This increase was due to the timing of reimbursement of costs for grant construction projects.

Low Income Housing Set Aside Fund has a fund balance of \$6,539, an increase of \$1,057 for the fiscal year. The increase was from expenditures being under spent compared to budget by \$1,235 for the fiscal year as several budgeted projects were postponed until this coming fiscal year.

The Redevelopment and Housing Grants Fund has a negative balance of (\$957), an increase of \$44 for the fiscal year. 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 \$887, 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 \$7,231, an increase of \$2,075 during the fiscal year. The increase was due to expected tax increment revenue being greater than debt service costs.

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.

Unrestricted net assets and changes of net assets for the four major enterprises funds are as follows:

	<u>Net Assets</u>	<u>Change in Net Assets</u>
	\$	\$
Water	63,262	3,535
Sewer	46,394	(1,522)
Solid Waste	2,330	(921)
Airport	4,980	(373)

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 no budget amendments during the current fiscal year. Taxes were (\$2,236) under budget. This decrease in tax revenue was due to real estate taxes, special sale tax, personal property and transient occupancy tax all being well below budgeted amounts. Capital outlay was \$3,149 under spent compared to the budget. These projects are reappropriated each year until completed.

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, 2009 was \$242,089 (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 increased by 7 percent (4 percent increase in governmental assets and 11 percent increase in business-type assets). Major capital asset events during the current fiscal year included the following:

- Completion of the construction of the Civic Center project building. The Civic Center project is made up of a 4 story building which will house the City of Watsonville's Library, Santa Cruz County Courts, and administrative offices for the City of Watsonville. In addition it will provide commercial space for lease.
- \$2.8 million costs towards the government's capital project for a \$47 million Watsonville Area Water Recycling Project of which \$20 million will be provided in grant funds from the United States Department of Interior.
- A variety of street widening and expansion projects for existing streets, completion of the Harkins Slough Signal project and construction in progress as of the end of the current fiscal year is \$63,913.

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 \$75,346. Of this amount, \$63,770 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds) less bond issuance costs of \$1,684, and \$868 is 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 \$2,031, debt payable of \$613, postretirement liability of \$940 and \$3,934 for capital leases. Business type activities have \$1,726 in capital leases payable, postretirement liability of \$344 and landfill closure liability of \$2,804.

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 \$119. In 2009, the County of Santa Cruz found an overpayment of tax increment in prior years of \$424 to the

Redevelopment Agency. The Agency will repay this overpayment in the next ten years with no interest.

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 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 \$110,805 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 67 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 funding for Police Officers.
- Increased demand on City resources for the development of 500 new homes.
- Limited investment opportunities for idle cash reserves.
- 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).

The City also closed down all City services (except of basic health and safety services) for three weeks during the 2009 holiday period to help close the budget gap due to continued declining revenues in the 2009/10 fiscal year.

All of these factors were taken into consideration during the preparation of the City of Watsonville's biennial budget for the fiscal year 2009-10.

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, 2009

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	<u>\$</u>	<u>\$</u>	<u>\$</u>
ASSETS			
Cash and investments	23,208,806	14,290,171	37,498,977
Cash and investments with fiscal agent	2,724,736	5,023,937	7,748,673
Receivables:			
Interest	501,767	3,047,631	3,549,398
Taxes	2,621,930	-	2,621,930
Assessments	868,000	-	868,000
Accounts	513,621	2,608,942	3,122,563
Intergovernmental	2,878,282	33,019,022	35,897,304
Internal balances	2,895,443	(2,895,443)	-
Loans receivable	23,304,005	6,075,735	29,379,740
Inventories	23,121	225,210	248,331
Deposits	62,000	-	62,000
Land held for resale	1,483,913	-	1,483,913
Capital assets (net of depreciation, where applicable)			
Land	14,424,456	22,663,599	37,088,055
Buildings and Improvements	93,427,464	18,127,087	111,554,551
Machinery	4,015,344	6,704,389	10,719,733
Infrastructure	6,258,806	12,555,685	18,814,491
Construction in progress	19,194,754	44,717,957	63,912,711
Total Assets	<u>198,406,448</u>	<u>166,163,922</u>	<u>364,570,370</u>

See accompanying notes to financial statements

Continued

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
LIABILITIES			
Accounts payable	1,908,150	2,178,360	4,086,510
Accrued personnel costs	3,223,570	1,226,466	4,450,036
Insurance claims payable	6,792,251	-	6,792,251
Interest payable	437,673	245,126	682,799
Retentions payable	58,793	1,363,824	1,422,617
Unearned revenue	34,603	402	35,005
Arbitrage rebate	-	54,749	54,749
Deposits	953,873	7,928	961,801
Noncurrent liabilities			
Due within one year	1,999,656	2,073,960	4,073,616
Due in more than one year (Net of capitalized discounts and issue costs)	29,224,672	42,047,467	71,272,139
Total Liabilities	44,633,241	49,198,282	93,831,523
NET ASSETS			
Investment in capital assets, net of related debt	108,016,139	67,784,342	175,800,481
Restricted for:			
Debt service	8,198,522	4,967,894	13,166,416
Low income housing set aside	6,539,371	-	6,539,371
Street	3,696,779	-	3,696,779
Affordable housing	1,739,250	-	1,739,250
Library	3,292,979	-	3,292,979
Unrestricted	22,290,167	44,213,404	66,503,571
Total Net Assets	153,773,207	116,965,640	270,738,847

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, 2009

Functions/Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:	\$	\$	\$	\$	\$	\$	\$
Governmental activities:							
General government	13,132,241	3,893,558	-	-	(9,238,683)	-	(9,238,683)
Public safety	24,371,493	2,067,789	569,199	-	(21,734,505)	-	(21,734,505)
Housing	1,413,339	477,599	2,390,723	62,462	1,517,445	-	1,517,445
Streets	4,685,679	2,778,886	2,260,334	1,674,850	2,028,391	-	2,028,391
Culture and recreation	3,153,355	3,631,932	-	-	478,577	-	478,577
Interest on long term debt	3,368,796	-	-	-	(3,368,796)	-	(3,368,796)
Total government activities	<u>50,124,903</u>	<u>12,849,764</u>	<u>5,220,256</u>	<u>1,737,312</u>	<u>(30,317,571)</u>	<u>-</u>	<u>(30,317,571)</u>
Business-type activities							
Water	13,871,027	12,884,440	-	1,283,892	-	297,305	297,305
Sewer	8,886,063	6,448,643	481,585	29,718	-	(1,926,117)	(1,926,117)
Solid Waste	8,872,455	7,797,858	15,039	-	-	(1,059,558)	(1,059,558)
Airport	2,863,342	2,238,517	172,451	79,295	-	(373,079)	(373,079)
Total business-type activities	<u>34,492,887</u>	<u>29,369,458</u>	<u>669,075</u>	<u>1,392,905</u>	<u>-</u>	<u>(3,061,449)</u>	<u>(3,061,449)</u>
Total primary government	<u>84,617,790</u>	<u>42,219,222</u>	<u>5,889,331</u>	<u>3,130,217</u>	<u>(30,317,571)</u>	<u>(3,061,449)</u>	<u>(33,379,020)</u>
General revenues:							
Property taxes					20,758,684	-	20,758,684
Sales taxes					9,969,083	-	9,969,083
Franchise taxes					158,779	-	158,779
Motor/vehicle taxes					1,051,102	-	1,051,102
Utility users taxes					2,774,936	-	2,774,936
Other taxes					977,133	-	977,133
Unrestricted investment earnings					1,126,051	3,780,015	4,906,066
Total general revenues					<u>36,815,768</u>	<u>3,780,015</u>	<u>40,595,783</u>
Change in net assets					6,498,197	718,566	7,216,763
Net assets - beginning					146,776,579	116,347,727	263,124,306
Prior period adjustments					498,431	(100,653)	397,778
Net assets - beginning, restated					<u>147,275,010</u>	<u>116,247,074</u>	<u>263,522,084</u>
Net assets - ending					<u>153,773,207</u>	<u>116,965,640</u>	<u>270,738,847</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS		OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	LOW INCOME HOUSING	REDEVELOPMENT AND HOUSING	GENERAL	REDEVELOPMENT		
			SET ASIDE	GRANTS				
	\$	\$	\$	\$	\$	\$	\$	
ASSETS:								
Cash and investments	396,731	974,032	4,982,004	18,436	109,627	5,021,577	9,732,733	21,235,140
Cash and investments with fiscal agent	-	-	-	-	771,391	1,953,345	-	2,724,736
Receivables:								
Interest	89,348	-	357,707	-	-	-	54,712	501,767
Taxes	1,773,277	-	-	-	6,388	306,932	535,333	2,621,930
Deferred assessments	-	-	-	-	868,000	-	-	868,000
Accounts	214,190	8,818	-	1,356	-	-	26,639	251,003
Intergovernmental	444,107	1,623,920	-	366,822	-	-	443,433	2,878,282
Due from other funds	4,521,097	-	-	-	-	-	1,678,134	6,199,231
Advances receivable	26,556	106,665	250,000	-	-	-	139,485	522,706
Loans receivable	77,212	-	6,919,804	14,171,339	-	-	2,135,650	23,304,005
Inventories	23,121	-	-	-	-	-	-	23,121
Land held for resale	-	-	1,483,913	-	-	-	-	1,483,913
Total Assets	7,565,639	2,713,435	13,993,428	14,557,953	1,755,406	7,281,854	14,746,119	62,613,834
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	590,038	788,273	4,226	26,867	-	50,407	196,869	1,656,680
Accrued personnel costs	2,930,831	1,293	12,808	12,064	-	-	91,647	3,048,643
Retentions payable	-	-	-	-	-	-	58,793	58,793
Due to other funds	-	-	-	1,004,707	-	-	1,479,557	2,484,264
Advances payable	-	-	159,041	-	-	-	933,189	1,092,230
Deferred revenue	312,485	1,623,920	7,277,511	14,459,855	868,000	-	2,522,863	27,064,634
Unearned revenue	20,314	-	-	11,664	-	-	2,625	34,603
Deposits	891,261	-	471	-	-	-	62,141	953,873
Total Liabilities	4,744,929	2,413,486	7,454,057	15,515,157	868,000	50,407	5,347,684	36,393,720
Fund Balances:								
Reserved for:								
Encumbrances	248,694	-	7,417	-	-	-	486,457	742,568
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	-	-	1,483,913	-	-	-	-	1,483,913
Debt service	-	-	-	-	887,406	7,231,447	-	8,118,853
Unreserved - designated for subsequent years expenditures:								
General fund	72,339	-	-	-	-	-	-	72,339
Unreserved reported in:								
Special revenue funds	-	193,284	4,798,041	(957,204)	-	-	8,772,493	12,806,614
Total Fund Balances	2,820,710	299,949	6,539,371	(957,204)	887,406	7,231,447	9,398,435	26,220,114
Total Liabilities and Fund Balances	7,565,639	2,713,435	13,993,428	14,557,953	1,755,406	7,281,854	14,746,119	62,613,834

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 30,2009

	<u>\$</u>
Amounts Reported For Governmental Activities To The Statement Of Net Assets Are Different Because:	
Fund Balances Of Governmental Funds. (Page 36)	26,220,114
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	181,070,568
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(43,749,744)
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.	(5,170,365)
Loans, Intergovernmental And Assessment Receivables Recorded As Deferred Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities.	27,064,635
Long-term Debt Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(31,726,321)
Bond Issuance Costs are Expensed In Year Of Issuance Therefore Not Reported In Governmental Funds.	501,993
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(437,673)
Net Assets Of Governmental Funds. (Page 33)	<u><u>153,773,207</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, 2009

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS		OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	LOW INCOME	REDEVELOPMENT	GENERAL	REDEVELOPMENT		
			HOUSING SET ASIDE	AND HOUSING GRANTS				
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	20,726,122	-	1,806,366	-	-	7,410,132	5,838,399	35,781,019
Licenses, permits, and fees	2,729,327	489,747	-	-	-	-	1,001,748	4,220,822
Intergovernmental	1,493,507	3,969,505	-	1,496,032	-	-	1,929,491	8,888,535
Charges for services	3,580,999	-	-	-	-	-	-	3,580,999
Fines	666,192	-	-	-	-	-	-	666,192
Interest	1,126,051	194,330	104,511	-	19,261	130,671	208,080	1,782,904
Special assessment	-	-	-	-	143,757	-	-	143,757
Miscellaneous	392,558	-	184,002	10,954	-	-	2,932,010	3,519,524
Total revenues	30,714,756	4,653,582	2,094,879	1,506,986	163,018	7,540,803	11,909,728	58,583,752
EXPENDITURES:								
Current:								
General government	7,030,645	-	-	59,046	-	-	4,520,672	11,610,363
Public safety	22,113,225	-	-	-	-	-	-	22,113,225
Housing	-	-	449,869	746,032	-	-	125,720	1,321,621
Streets	4,159,066	-	-	-	-	-	-	4,159,066
Culture and recreation	4,421,765	-	-	-	-	-	-	4,421,765
Capital outlay	344,018	2,631,243	5,431	265,053	-	-	3,174,779	6,420,524
Debt service:								
Principal	-	-	-	-	1,094,604	798,836	-	1,893,440
Interest and fiscal charges	-	-	-	-	332,580	3,087,074	-	3,419,654
Total expenditures	38,068,719	2,631,243	455,300	1,070,131	1,427,184	3,885,910	7,821,171	55,359,658
Excess (deficiency) of revenues over (under) expenditures	(7,353,963)	2,022,339	1,639,579	436,855	(1,264,166)	3,654,893	4,088,557	3,224,094
OTHER FINANCING SOURCES (USES)								
Transfers in	3,131,186	-	-	-	1,294,036	582,168	2,161,625	7,169,015
Transfers out	-	(23,140)	(582,168)	(393,302)	-	(2,161,625)	(4,008,780)	(7,169,015)
Total other financing sources (uses)	3,131,186	(23,140)	(582,168)	(393,302)	1,294,036	(1,579,457)	(1,847,155)	-
Net change in fund balances	(4,222,777)	1,999,199	1,057,411	43,553	29,870	2,075,436	2,241,402	3,224,094
Fund balances, July 1	6,651,312	(1,732,893)	5,481,960	(1,000,757)	857,536	5,111,531	7,128,900	22,497,589
Prior period adjustments	392,175	33,643	-	-	-	44,480	28,133	498,431
Fund balances, July 1, as restated	7,043,487	(1,699,250)	5,481,960	(1,000,757)	857,536	5,156,011	7,157,033	22,996,020
Fund balances, June 30	2,820,710	299,949	6,539,371	(957,204)	887,406	7,231,447	9,398,435	26,220,114

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, 2009

	<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)	3,224,094
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.	5,671,773
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	(1,960,651)
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.	1,893,440
This Amount is the Bonds Issuance Costs	(34,487)
This Amount of Post Retirement Costs	(940,186)
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	(1,179,558)
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>19,138</u>
Change In Net Assets Of Governmental Funds. (Page 35)	<u><u>6,693,563</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, 2009

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$		
REVENUES:				
Taxes	22,962,500	22,962,500	20,726,122	(2,236,378)
Licenses, permits, and fees	3,510,150	3,510,150	2,729,327	(780,823)
Intergovernmental	1,312,933	1,312,933	1,493,507	180,574
Charges for services	3,783,578	3,783,578	3,580,999	(202,579)
Fines	546,400	546,400	666,192	119,792
Interest	1,305,060	1,305,060	1,126,051	(179,009)
Miscellaneous	401,362	401,362	392,558	(8,804)
Total revenues	33,821,983	33,821,983	30,714,756	(3,107,227)
EXPENDITURES:				
Current:				
General government	7,433,118	7,433,118	7,030,645	402,473
Public safety	21,653,667	21,653,667	22,113,225	(459,558)
Streets	4,171,684	4,171,684	4,159,066	12,618
Culture and recreation	4,756,980	4,756,980	4,421,765	335,215
Capital outlay	3,493,276	3,493,276	344,018	3,149,258
Total expenditures	41,508,725	41,508,725	38,068,719	3,440,006
Excess (deficiency) of revenues over (under) expenditures	(7,686,742)	(7,686,742)	(7,353,963)	332,779
OTHER FINANCING SOURCES (USES)				
Transfers in	3,451,000	3,451,000	3,131,186	(319,814)
Total other financing sources (uses)	3,451,000	3,451,000	3,131,186	(319,814)
Net change in fund balance	(4,235,742)	(4,235,742)	(4,222,777)	12,965
Fund balance, July 1	6,651,312	6,651,312	6,651,312	-
Prior period adjustments	-	-	392,175	392,175
Fund balance July 1, as restated	6,651,312	6,651,312	7,043,487	392,175
Fund balance, June 30	2,415,570	2,415,570	2,820,710	405,140

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, 2009

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Licenses, permits, and fees	939,600	939,600	489,747	(449,853)
Intergovernmental	132,000	132,000	3,969,505	3,837,505
Interest	191,000	191,000	194,330	3,330
Total revenues	<u>1,262,600</u>	<u>1,262,600</u>	<u>4,653,582</u>	<u>3,390,982</u>
EXPENDITURES:				
Capital outlay	<u>22,246,339</u>	<u>22,246,339</u>	<u>2,631,243</u>	<u>19,615,096</u>
Total expenditures	<u>22,246,339</u>	<u>22,246,339</u>	<u>2,631,243</u>	<u>19,615,096</u>
OTHER FINANCING SOURCES (USES):				
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>(21,006,879)</u>	<u>(21,006,879)</u>	<u>1,999,199</u>	<u>23,006,078</u>
Fund balance, July 1	(1,732,893)	(1,732,893)	(1,732,893)	-
Prior period adjustments	-	-	33,643	33,643
Fund balances, July 1, as restated	<u>(1,732,893)</u>	<u>(1,732,893)</u>	<u>(1,699,250)</u>	<u>33,643</u>
Fund balance, June 30	<u><u>(22,739,772)</u></u>	<u><u>(22,739,772)</u></u>	<u><u>299,949</u></u>	<u><u>23,039,721</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
LOW INCOME HOUSING SET ASIDE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Taxes	1,741,536	1,741,536	1,806,366	64,830
Interest	50,000	50,000	104,511	54,511
Miscellaneous	65,000	65,000	184,002	119,002
Total revenues	<u>1,856,536</u>	<u>1,856,536</u>	<u>2,094,879</u>	<u>238,343</u>
EXPENDITURES:				
Current:				
Housing	1,676,792	1,676,792	449,869	1,226,923
Capital outlay	13,628	13,628	5,431	8,197
Total expenditures	<u>1,690,420</u>	<u>1,690,420</u>	<u>455,300</u>	<u>1,235,120</u>
Excess (deficiency) of revenues over (under) expenditures	<u>166,116</u>	<u>166,116</u>	<u>1,639,579</u>	<u>1,473,463</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(594,952)</u>	<u>(594,952)</u>	<u>(582,168)</u>	<u>12,784</u>
Total other financing sources (uses)	<u>(594,952)</u>	<u>(594,952)</u>	<u>(582,168)</u>	<u>12,784</u>
Net change in fund balances	(428,836)	(428,836)	1,057,411	1,486,247
Fund balance, July 1	<u>5,481,960</u>	<u>5,481,960</u>	<u>5,481,960</u>	<u>-</u>
Fund balance, June 30	<u>5,053,124</u>	<u>5,053,124</u>	<u>6,539,371</u>	<u>1,486,247</u>

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, 2009

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Intergovernmental	2,324,302	2,324,302	1,496,032	(828,270)
Interest	5,000	5,000	-	(5,000)
Miscellaneous	-	-	10,954	10,954
Total revenues	<u>2,329,302</u>	<u>2,329,302</u>	<u>1,506,986</u>	<u>(822,316)</u>
EXPENDITURES:				
Current:				
General government	216,077	216,077	59,046	157,031
Housing	2,857,366	2,857,366	746,032	2,111,334
Capital outlay	216,021	216,021	265,053	(49,032)
Total expenditures	<u>3,289,464</u>	<u>3,289,464</u>	<u>1,070,131</u>	<u>2,219,333</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(960,162)</u>	<u>(960,162)</u>	<u>436,855</u>	<u>1,397,017</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(458,834)</u>	<u>(458,834)</u>	<u>(393,302)</u>	<u>65,532</u>
Total other financing sources (uses)	<u>(458,834)</u>	<u>(458,834)</u>	<u>(393,302)</u>	<u>65,532</u>
Net change in fund balances	(1,418,996)	(1,418,996)	43,553	1,397,017
Fund balance, July 1	<u>(1,000,757)</u>	<u>(1,000,757)</u>	<u>(1,000,757)</u>	<u>-</u>
Fund balance, June 30	<u><u>(2,419,753)</u></u>	<u><u>(2,419,753)</u></u>	<u><u>(957,204)</u></u>	<u><u>1,462,549</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	Fund
	\$	\$	\$	\$	\$	\$
ASSETS						
Current Assets:						
Cash and investments	1,837,427	8,552,375	3,899,219	1,150	14,290,171	1,973,666
Cash and investments with fiscal agent	3,113,292	949,450	961,195	-	5,023,937	-
Receivables:						
Interest	3,047,631	-	-	-	3,047,631	-
Accounts	661,846	903,569	671,941	371,586	2,608,942	262,618
Loans	-	233,704	-	-	233,704	-
Due from other governments	33,019,022	-	-	-	33,019,022	-
Deposits	-	-	-	-	-	62,000
Inventories	188,156	-	363	36,691	225,210	-
Total Current Assets	41,867,374	10,639,098	5,532,718	409,427	58,448,617	2,298,284
Noncurrent Assets						
Advances receivable	819,524	-	-	-	819,524	-
Loan receivable	4,212,288	1,629,743	-	-	5,842,031	-
Capital assets:						
Land and improvements	5,698,697	8,943,006	438,000	7,583,896	22,663,599	-
Buildings	3,056,025	15,405,850	4,107,495	8,791,900	31,361,270	-
Machinery and equipment	6,821,254	2,801,852	5,181,030	298,749	15,102,885	-
Infrastructure	12,745,393	38,024,887	1,004,647	1,941,125	53,716,052	-
Construction in progress	35,312,418	9,405,539	-	-	44,717,957	-
Accumulated depreciation	(14,297,895)	(33,913,513)	(6,112,251)	(8,469,387)	(62,793,046)	-
Total Capital Assets (Net of accumulated depreciation)	49,335,892	40,667,621	4,618,921	10,146,283	104,768,717	-
Total Noncurrent Assets	54,367,704	42,297,364	4,618,921	10,146,283	111,430,272	-
Total Assets	96,235,078	52,936,462	10,151,639	10,555,710	169,878,889	2,298,284
LIABILITIES						
Current Liabilities:						
Accounts payable	807,120	1,103,139	227,311	40,790	2,178,360	251,471
Accrued personnel costs	281,637	523,557	349,646	71,626	1,226,466	174,927
Insurance claims payable	-	-	-	-	-	6,792,251
Interest payable	189,083	27,270	28,773	-	245,126	-
Retentions payable	836,036	527,788	-	-	1,363,824	-
Unearned revenue	-	-	-	402	402	-
Due to other funds	-	-	-	3,714,967	3,714,967	-
Arbitrage rebate	35,477	9,124	10,148	-	54,749	-
Customer deposits	7,928	-	-	-	7,928	-
Current maturities of long term debt:						
Liability for landfill closure	-	-	133,200	-	133,200	-
Revenue bonds	525,000	550,000	540,000	-	1,615,000	-
Lease payable	-	-	-	325,760	325,760	-
Total Current Liabilities	2,682,281	2,740,878	1,289,078	4,153,545	10,865,782	7,218,649
Noncurrent Liabilities:						
Advance payable	-	-	-	-	-	250,000
Post retirement	85,289	120,036	116,877	22,112	344,314	-
Liability for landfill closure	-	-	2,670,340	-	2,670,340	-
Lease payable	-	-	-	1,400,078	1,400,078	-
Revenue bonds payable (Net of capitalized discounts and issue costs)	30,205,660	3,681,957	3,745,118	-	37,632,735	-
Total Noncurrent Liabilities	30,290,949	3,801,993	6,532,335	1,422,190	42,047,467	250,000
Total Liabilities	32,973,230	6,542,871	7,821,413	5,575,735	52,913,249	7,468,649
Net Assets						
Investment in capital assets (Net of related debt)	21,633,235	36,435,664	1,294,998	8,420,445	67,784,342	-
Restricted for debt service	3,113,292	922,180	932,422	-	4,967,894	-
Unrestricted	38,515,321	9,035,747	102,806	(3,440,470)	44,213,404	(5,170,365)
Total Net Assets	63,261,848	46,393,591	2,330,226	4,979,975	116,965,640	(5,170,365)

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, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES:						
Charges for services	8,239,143	6,448,643	7,797,858	2,238,517	24,724,161	7,392,277
Recycle water revenue	4,645,297	-	-	-	4,645,297	-
Total Operating Revenue	12,884,440	6,448,643	7,797,858	2,238,517	29,369,458	7,392,277
OPERATING EXPENSES:						
Costs of sales and services	7,456,703	7,291,873	7,010,642	1,849,659	23,608,877	8,571,835
Depreciation	776,464	1,345,012	686,716	924,148	3,732,340	-
Total Operating Expenses	8,233,167	8,636,885	7,697,358	2,773,807	27,341,217	8,571,835
Operating Income (Loss)	4,651,273	(2,188,242)	100,500	(535,290)	2,028,241	(1,179,558)
NONOPERATING REVENUES (EXPENSES)						
Lease revenue	-	-	-	172,451	172,451	-
Grant revenue	1,170,626	481,585	15,039	79,295	1,746,545	-
Interest revenue	3,237,935	403,928	138,152	-	3,780,015	-
Interest expense	(1,521,662)	(178,205)	(474,289)	(89,535)	(2,263,691)	-
Arbitrage	-	(9,124)	(45,625)	-	(54,749)	-
Miscellaneous expenses	(4,065,431)	(10,151)	(275,138)	-	(4,350,720)	-
Landfill usage	-	-	(344,133)	-	(344,133)	-
Amortization	(50,767)	(51,698)	(35,912)	-	(138,377)	-
Total Nonoperating Revenues (expenses)	(1,229,299)	636,335	(1,021,906)	162,211	(1,452,659)	-
Income Before Contributions						
Capital contributions - Connection fees	113,266	29,718	-	-	142,984	-
Changes in Net Assets	3,535,240	(1,522,189)	(921,406)	(373,079)	718,566	(1,179,558)
Total Net Assets - Beginning	59,792,630	47,801,049	3,397,418	5,356,630	116,347,727	(3,990,807)
Prior period adjustments	(66,022)	114,731	(145,786)	(3,576)	(100,653)	-
Total Net Assets - Beginning, as restated	59,726,608	47,915,780	3,251,632	5,353,054	116,247,074	(3,990,807)
Total Net Assets - Ending	63,261,848	46,393,591	2,330,226	4,979,975	116,965,640	(5,170,365)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	Fund
	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	12,240,668	6,930,228	7,812,897	2,238,517	29,222,310	-
Receipts from interfund services provided	643,772	1,388,475	-	63,930	2,096,177	7,174,706
Payments to suppliers	(7,651,918)	(2,270,088)	(3,139,590)	(1,625,490)	(14,687,086)	(7,409,447)
Payments to employees	(2,255,868)	(4,385,635)	(2,823,864)	(525,289)	(9,990,656)	-
Payment for interfund services used	(1,229,420)	(997,699)	(880,046)	(4,000)	(3,111,165)	-
Net cash provided by operating activities	<u>1,747,234</u>	<u>665,281</u>	<u>969,397</u>	<u>147,668</u>	<u>3,529,580</u>	<u>(234,741)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(5,302,687)	(8,499,069)	(558,217)	-	(14,359,973)	-
Disposition of assets	-	(16,014)	(28,035)	-	(44,049)	-
Non operating expenses	(4,065,431)	(10,151)	(275,138)	-	(4,350,720)	-
Connection fees	113,266	29,718	-	-	142,984	-
Grant revenue	1,170,626	481,585	15,039	79,295	1,746,545	-
Arbitrage paid on debt	-	-	(35,477)	-	(35,477)	-
Principal paid on long term debt	(505,000)	(520,000)	(777,018)	(309,880)	(2,111,898)	-
Interest paid on long term debt	(1,521,662)	(181,220)	(477,457)	(89,534)	(2,269,873)	-
Net cash provided (used) by capital and related financing activities	<u>(10,110,888)</u>	<u>(8,715,151)</u>	<u>(2,136,303)</u>	<u>(320,119)</u>	<u>(21,282,461)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Lease revenue	-	-	-	172,451	172,451	-
Interest received	1,016,821	403,928	138,152	-	1,558,901	-
Net cash provided (used) by investment activities	<u>1,016,821</u>	<u>403,928</u>	<u>138,152</u>	<u>172,451</u>	<u>1,731,352</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(7,346,833)</u>	<u>(7,645,942)</u>	<u>(1,028,754)</u>	<u>-</u>	<u>(16,021,529)</u>	<u>(234,741)</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,297,552</u>	<u>17,147,767</u>	<u>5,889,168</u>	<u>1,150</u>	<u>35,335,637</u>	<u>2,208,407</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<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>
Reconciliation of Statement of Net Assets:						
Cash and investments	1,837,427	8,552,375	3,899,219	1,150	14,290,171	1,973,666
Cash and investments with fiscal agent	3,113,292	949,450	961,195	-	5,023,937	-
	<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>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income	4,651,273	(2,188,242)	100,500	(535,290)	2,028,241	(1,179,558)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	776,464	1,345,012	686,716	924,148	3,732,340	-
(Increase) decrease in receivables	527,103	(416,612)	(90,932)	21,216	40,775	(217,571)
(Increase) decrease in inventories	14,781	-	49	65,276	80,106	-
(Increase) decrease in loans receivable	2,872,139	234,702	-	-	3,106,841	-
(Increase) decrease in due from other governments	(6,213,633)	-	-	160,415	(6,053,218)	-
(Increase) decrease in advance receivable	43,450	-	-	-	43,450	-
Increase (decrease) in accounts payable	(199,605)	809,554	111,176	(99,713)	621,412	(135,219)
Increase (decrease) in retentions payable	(818,923)	527,788	-	-	(291,135)	-
Increase (decrease) in claims payable	-	-	-	-	-	1,296,143
Increase (decrease) in accrued personnel costs	25,623	118,312	45,011	3,914	192,860	1,464
Increase (decrease) in customer deposits	(16,727)	-	-	-	(16,727)	-
Increase (decrease) in post retirement	85,289	120,036	116,877	22,112	344,314	-
Increase (decrease) in due to other funds	-	-	-	(411,236)	(411,236)	-
Total adjustments	<u>(2,904,039)</u>	<u>2,853,523</u>	<u>868,897</u>	<u>682,958</u>	<u>1,501,339</u>	<u>944,817</u>
Net cash provided (used) by operating activities	<u>1,747,234</u>	<u>665,281</u>	<u>969,397</u>	<u>147,668</u>	<u>3,529,580</u>	<u>(234,741)</u>
NONCASH INVESTING ACTIVITIES:						
Landfill postclosure liability amortization	-	-	\$144,627	-	\$144,627	-
Landfill usage	-	-	68,747	-	68,747	-
Capitalized discounts and issue costs	<u>\$50,767</u>	<u>\$51,698</u>	<u>35,912</u>	<u>-</u>	<u>138,377</u>	<u>-</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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, 2009 (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, 2009 (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 50,000 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, 2009 (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 governments 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 governments 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, 2009 (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, 2009 (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 40% to 50% of their hourly rate once a year in December. Upon termination, unused sick leave is not paid to the employee, except for confidential employees who are paid at there contractually agreed to rate. 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, 2009 (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, 2009 (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) \$181,070,568 differences are as follows:

Capital Assets:

Land	\$14,424,456
Buildings and improvements	111,835,078
Machinery and equipment	10,483,955
Infrastructure	25,132,352
Construction in progress	<u>19,194,754</u>
Total	<u>\$181,070,568</u>

The details of 2) (\$31,726,321) differences are as follows:

Long-term Debt:

Debt payable to County of Santa Cruz	(\$613,477)
Redevelopment tax allocation bonds	(23,340,000)
Capital leases	(3,933,658)
Sec 108 loan	(2,031,000)
Postretirement	(940,186)
Special assessment bonds	<u>(868,000)</u>
Total	<u>(\$31,726,321)</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 \$5,671,773 difference are as follows:

Capital outlay	\$8,997,215
Net retirement of assets	(689,259)
Depreciation expense	<u>(2,636,183)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$5,671,773</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (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 no supplemental budget appropriations during the fiscal year.

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, 2009, expenditures exceeded appropriations in the parking garage fund by \$229,684 and the retirement fund by \$3,038. The parking garage fund will be reimbursed by future revenue collections. 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 \$763,128, Redevelopment fund \$1,045,772, Parking Garage fund of \$645,801, Impact Fees fund \$1,732,983, Redevelopment and Housing Grant fund \$957,204 and the Internal Service fund \$5,170,365 as of June 30, 2009. 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, 2009 (Continued)

IV. Detailed notes on all funds

A. Cash and investments

Cash and investments at June 30, 2009, consisted of the following:

Total Pooled Deposits and Investments	\$37,498,977
Cash and Investments with Fiscal Agent	<u>7,748,673</u>
Total Cash and Investments	<u>\$45,247,650</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, 2009 were as follows:

<u>Cash</u>		
Demand Deposits	\$ 2,046,155	
Outstanding Checks	(946,627)	
Deposits in Transit	<u>91,349</u>	
Net Demand Deposits	1,190,877	
Petty Cash	<u>9,919</u>	
Cash Subtotal		1,200,796
<u>Investments</u>		
Assessment Bonds	868,022	
U.S. Government Securities	6,076,233	
Mutual Funds:		
Money Market	1,999,208	
Guaranteed Investment Contracts	7,956,997	
Local Agency Investment Fund	<u>27,146,394</u>	
Investment Subtotal		<u>44,046,854</u>
Total Cash and Investments		<u>\$45,247,650</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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

Governmental Funds:	
General	\$396,731
Impact Fees	974,032
Low Income Housing Set-Aside	4,982,004
Redevelopment and Housing Grants	18,436
General Debt Service	881,018
Redevelopment Debt Service	6,974,922
Other Non-major Funds	<u>9,732,733</u>
Total Governmental Funds	<u>23,959,876</u>
Business-type Activities:	
Water	4,950,719
Sewer	9,501,825
Solid waste	4,860,414
Airport	<u>1,150</u>
Total Business-type Activities	<u>19,314,108</u>
<u>Governmental Activities</u>	
Internal Service Fund	<u>1,973,666</u>
Total Governmental Activities	<u>1,973,666</u>
Total Government Cash	<u>\$45,247,650</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, 2009, the government carrying amount of deposits and cash on hand was \$1,200,796 and bank balances was \$2,046,155. Of the bank balances, \$2,000,000 was covered by Federal Depository Insurance and \$46,155 by collateral held by the government's agent in the government's name.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (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	\$ 6,076,233	\$ -	\$ -	\$ 6,076,233
State Investment Pool	27,146,394	27,146,394	-	-
Debt of City of Watsonville	868,022	-	-	868,022
Money Market	1,999,208	1,999,208	-	-
Guaranteed Inv. Contracts	7,956,997	-	-	7,956,997
Total	<u>\$44,046,854</u>	<u>\$29,145,602</u>	<u>\$ -</u>	<u>\$8,825,019</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (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	\$6,076,233	N/A	\$ -	\$6,076,233	
State Investment Pool	27,146,394	N/A			\$ 27,146,394
Debt of City of Watsonville	868,022	N/A			868,022
Money Market	1,999,208	N/A			1,999,208
Guaranteed Inv. Contracts	7,956,997	N/A		7,956,997	
Total	<u>\$44,046,854</u>		<u>\$ -</u>	<u>\$14,033,230</u>	<u>\$30,013,624</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, 2009 the amortized cost value of the pool was \$50,743,268,381 and the estimated fair value of the pool was \$50,892,735,137. 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	89,348	-	357,707	-
Taxes	1,773,277	-	-	-
Accounts	214,190	8,818	-	1,356
Intergovernmental	<u>444,107</u>	<u>1,623,920</u>	<u>-</u>	<u>366,822</u>
Total governmental activities receivables	<u>2,520,922</u>	<u>1,632,738</u>	<u>357,707</u>	<u>368,178</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (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	-	-	54,712
Taxes	6,388	306,932	535,333
Deferred			
Assessments	868,000	-	-
Accounts	-	-	26,639
Intergovernmental	-	-	443,433
Total governmental			
Activities receivables	<u>874,388</u>	<u>306,932</u>	<u>1,060,117</u>

Business-type Activities:	<u>Water</u>	<u>Sewer</u>	<u>Waste</u>	<u>Airport</u>	<u>Internal</u> <u>Service</u>
Receivables:	\$	\$	\$	\$	\$
Interest	3,047,631	-	-	-	-
Accounts	<u>661,846</u>	<u>903,569</u>	<u>671,941</u>	<u>371,586</u>	<u>262,618</u>
Total business-type					
activities receivables	<u>3,709,477</u>	<u>903,569</u>	<u>671,941</u>	<u>371,586</u>	<u>262,618</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)	868,000	-
Grant funds received but not earned	-	34,603
Grants draw downs prior to meeting all eligibility requirements:		
general fund	235,273	-
special revenue funds	2,377,949	-
Loans receivables prior to meeting all eligibility requirements:		
general fund	77,212	-
special revenue funds	<u>23,506,200</u>	-
Total deferred revenue	<u>27,064,634</u>	<u>34,603</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	14,424,456	-	-	14,424,456
Construction in progress	<u>78,978,346</u>	<u>3,179,870</u>	<u>(62,963,462)</u>	<u>19,194,754</u>
Total capital assets, not being depreciated	<u>93,402,802</u>	<u>3,179,870</u>	<u>(62,963,462)</u>	<u>33,619,210</u>
Capital assets, being depreciated:				
Building and improvements	44,633,848	67,932,803	(731,573)	111,835,078
Machinery and equipment	10,552,615	629,932	(698,592)	10,483,955
Infrastructure	<u>24,914,253</u>	<u>218,072</u>	<u>-</u>	<u>25,132,325</u>
Total capital assets being depreciated	<u>80,100,716</u>	<u>68,780,807</u>	<u>(1,430,165)</u>	<u>147,451,358</u>
Less accumulated depreciation for:				
Building and improvements	(17,985,370)	(1,041,692)	619,448	(18,407,614)
Machinery and equipment	(5,778,547)	(811,522)	121,458	(6,468,611)
Infrastructure	<u>(18,090,550)</u>	<u>(782,969)</u>	<u>-</u>	<u>(18,873,519)</u>
Total accumulated depreciation	<u>(41,854,467)</u>	<u>(2,636,183)</u>	<u>740,906</u>	<u>(43,749,744)</u>
Total capital assets, Being depreciated, net	<u>38,246,249</u>	<u>66,144,624</u>	<u>(689,259)</u>	<u>103,701,614</u>
Governmental activities capital assets, net	<u>131,649,051</u>	<u>69,324,494</u>	<u>(63,652,721)</u>	<u>137,320,824</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
	\$	\$	\$	\$
Business-type activities:				
Capital assets, not being depreciated:				
Land	23,668,246	-	(1,004,647)	23,663,599
Construction in progress	<u>31,463,002</u>	<u>13,374,558</u>	<u>(119,603)</u>	<u>44,717,957</u>
Total capital assets, not being depreciated	<u>55,131,248</u>	<u>13,374,558</u>	<u>(1,124,250)</u>	<u>67,381,556</u>
Capital assets, being depreciated:				
Building and improvements	31,154,958	206,312	-	31,361,170
Machinery and equipment	14,288,522	848,698	(34,335)	15,102,885
Infrastructure	<u>52,711,405</u>	<u>1,004,647</u>	<u>-</u>	<u>53,716,052</u>
Total capital assets being depreciated	<u>99,159,532</u>	<u>2,056,380</u>	<u>(34,058)</u>	<u>100,180,207</u>
Less accumulated depreciation for:				
Building and improvements	(11,618,856)	(1,615,327)	-	(13,234,183)
Machinery and equipment	(7,688,011)	(748,063)	34,335	(8,398,495)
Infrastructure	<u>(39,788,174)</u>	<u>(1,368,950)</u>	<u>-</u>	<u>(41,160,368)</u>
Total accumulated depreciation	<u>(59,095,041)</u>	<u>(3,732,340)</u>	<u>34,335</u>	<u>(62,793,046)</u>
Total capital assets, being depreciated, net	<u>39,058,844</u>	<u>(11,088,004)</u>	<u>9,415,321</u>	<u>37,387,161</u>
Business-type activities capital assets, net	<u>94,191,092</u>	<u>2,286,554</u>	<u>8,291,071</u>	<u>104,768,717</u>

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

Government activities:	
General government	\$912,939
Public safety	536,058
Housing	36,197
Highways and streets	330,792
Culture and recreation	<u>820,197</u>

Total depreciation expense - governmental activities	<u>\$2,636,183</u>
--	--------------------

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

Business-type activities:

Water	\$776,464
Sewer	1,345,012
Solid Waste	686,716
Airport	<u>924,148</u>

Total depreciation expense - business-type activities \$3,732,340

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2009, 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, 2009 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental Funds:	\$	\$
General	4,521,097	-
Redevelopment & Housing	-	1,004,707
Nonmajor Funds	<u>1,678,134</u>	<u>1,479,557</u>
Total Governmental Funds	<u>6,199,231</u>	<u>2,484,264</u>
Business-type Fund:		
Enterprise Fund:		
Airport	<u>-</u>	<u>3,714,967</u>
Total Business-type Funds	<u>-</u>	<u>3,714,967</u>
Total government	<u>6,199,231</u>	<u>6,199,231</u>

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

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, 2009 were as follows:

	<u>Advances receivable</u>	<u>Advances payable</u>
Governmental Funds:	\$	\$
General	26,556	-
Impact Fees	106,665	-
Low Income Housing Set Aside	250,000	159,041
Nonmajor Funds	<u>139,485</u>	<u>933,189</u>
Total Governmental Funds	<u>522,706</u>	<u>1,092,230</u>
Business-type Fund:		
Water	<u>819,524</u>	<u>-</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

Internal Service Fund:

Internal Service Fund	<u>-</u>	<u>250,000</u>
Total Proprietary-type Funds	<u>819,524</u>	<u>250,000</u>
Total government	<u>1,342,230</u>	<u>1,342,230</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:

	Transfers In				Total
	General Fund	General Debt Service Fund	RDA Debt Service Fund	Non-major Funds	
<u>Transfers out:</u>	\$	\$	\$	\$	\$
Impact Fees		23,140			23,140
Low Income Housing					
Set Aside	-	-	582,168	-	582,168
Redevelopment-Housing	170,000	223,302	-	-	393,302
Redevelopment Debt					
Service	-	-	-	2,161,625	2,161,625
Non-major Funds	<u>2,961,186</u>	<u>1,047,594</u>	<u>-</u>	<u>-</u>	<u>4,008,780</u>
Total Transfers Out	<u>3,131,186</u>	<u>1,294,036</u>	<u>582,168</u>	<u>2,161,625</u>	<u>7,169,015</u>

E. Leases

Operating lease

The government has entered into a non-cancellable operating lease for 911 and public safety dispatching services with Santa Cruz Consolidated Emergency Communications Center. Total cost for the lease was \$76,181 for the fiscal year ended June 30, 2009. The future minimum lease payments as of June 30, 2009, are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
	\$
2010	77,332
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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

2021	54,864
2022	54,863
2023	54,700
2024	<u>55,257</u>
	<u>870,054</u>

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, 2009, the government has the option to purchase the hangars for \$544,946. 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> \$
2010	133,391
2011	133,391
2012	133,391
2013	133,391
2014	<u>55,580</u>
Total lease payments	589,144
Less imputed interest	<u>(57,488)</u>
Net present value of total future lease payments	<u>531,656</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, 2009 was \$1,218,066. 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> \$
2010	274,657

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

2011	274,657
2012	274,657
2013	274,657
2014	<u>274,658</u>
Total lease payments	1,372,285
Less imputed interest	<u>(179,104)</u>
Net present value of total future lease payments	<u>1,194,181</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>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>March 1,</u>	\$	\$	\$
2010	900,000	145,250	1,045,250
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>3,800,000</u>	<u>380,250</u>	<u>4,180,250</u>

On March 1, 2006, the government entered into a lease agreement, with the option to purchase, with Kansas Bank of Manhattan to finance a portion of the costs of building two new fire engines, which started in November of 2006. The total amount for which the government was obligated under the lease was \$179,792 with an interest rate of 5.049%. The purchase option amount as of June 30, 2009 was \$136,157. Delivery of the fire engines occurred during the 2007/08 fiscal year.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>January 16,</u>	\$	\$	\$
2010	16,391	6,749	23,140
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>133,658</u>	<u>28,322</u>	<u>161,980</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; 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.

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, 2009.

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%.

Sewer Revenue Refunding Bonds Series 1998 - On April 1, 1998, the government issued \$8,625,000 in Sewer Refunding Bonds with interest rates ranging from 4.25% to 5.00% to refund \$6,045,000 of outstanding 1991 Sewer Revenue Bonds with interest rates ranging from 4.74% to 6.75%.

Solid Waste Revenue Refunding Bonds Series 1998 - On April 1, 1998, the government issued \$4,630,000 in Solid Waste Refunding Bonds with interest rates ranging from 4.25% to 5.00% to

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

refund \$2,445,000 of outstanding 1991 Solid Waste Revenue Bonds with interest rates ranging from 4.74% to 6.75%.

Solid Waste Revenue Refunding Bonds Series 1996 - On November 1, 1996, the government issued \$4,530,000 in Solid Waste Revenue Bonds with interest rates ranging from 5.10% to 5.70% to fund the construction of a new 10 acre phase III landfill cell.

Revenue bonds payable at June 30, 2009 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%	4,240,000
\$8,625,000, 1998 sewer revenue refunding bonds due in annual principal installments ranging from \$85,000 to \$725,000 through May 2016, interest rate ranges from 4.25% to 5.00%	4,425,000
\$4,630,000, 1998 solid waste revenue bonds due in annual principal installments ranging from \$75,000 to \$385,000 through May 2016, interest rate ranges from 4.25% to 5.00%	2,345,000
\$4,530,000, 1996 solid waste revenue bonds due in annual principal installments ranging from \$345,000 to \$140,000 through May 2016, interest rate ranges from 5.10% to 5.77%	<u>2,075,000</u>
Total Revenue Bonds	<u>40,430,000</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, 2009 (Continued)

2007 Water Revenue Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2010		1,294,059	1,294,059
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	955,000	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>26,341,223</u>	<u>53,686,223</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>	\$	\$	\$
2010	525,000	206,276	731,276
2011	550,000	181,995	731,995
2012	575,000	155,870	730,870

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (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>4,240,000</u>	<u>874,281</u>	<u>5,114,281</u>

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

1998 Sewer Revenue Refunding Bonds

Maturity Date <u>May 15,</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2010	550,000	216,381	766,381
2011	575,000	190,944	765,944
2012	595,000	163,631	758,631
2013	625,000	134,625	759,625
2014	660,000	104,000	764,000
2015 *	695,000	71,000	766,000
2016 *	<u>725,000</u>	<u>36,250</u>	<u>761,250</u>
Total	<u>4,425,000</u>	<u>916,831</u>	<u>5,341,831</u>

- Principal applied to a sinking fund in years 2015 to 2016.

1998 Solid Waste Revenue Refunding Bonds

Maturity Date <u>May 15,</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2010	290,000	114,683	404,683
2011	300,000	101,270	401,270
2012	320,000	87,020	407,020
2013	330,000	71,420	401,420
2014	355,000	55,250	410,250
2015 *	365,000	37,500	402,500
2016 *	<u>385,000</u>	<u>19,250</u>	<u>404,250</u>
Total	<u>2,345,000</u>	<u>486,393</u>	<u>2,831,393</u>

- Principal applied to a sinking fund in years 2015 to 2016.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

1996 Solid Waste Revenue Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2010	250,000	113,625	363,625
2011	265,000	100,375	365,375
2012	280,000	85,800	365,800
2013	295,000	70,400	365,400
2014	310,000	54,175	364,175
2015	330,000	37,125	367,125
2016	<u>345,000</u>	<u>18,975</u>	<u>363,975</u>
Total	<u>2,075,000</u>	<u>480,475</u>	<u>2,555,475</u>

Tax allocation bonds

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

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

2004 Tax Allocation Bonds, Series A

A portion of the proceeds from the issue is to be used to finance a portion of the costs of design and construction of the Civic Center Plaza and Parking Structure project in downtown Watsonville. Interest rates for the Series A bonds range from 4% to 5% with principal payments ranging from \$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>	\$	\$	\$
2009	555,000	787,798	1,342,798
2010	575,000	767,198	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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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>17,270,000</u>	<u>10,431,806</u>	<u>27,701,806</u>

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

2004 Tax Allocation Bonds, Series B-1

A portion of the proceeds from this issue is to be used to finance certain low and moderate income housing capital improvements within the Redevelopment Project Area. Interest rates for the Series B-1 bonds range from 4% to 5% with principal payments ranging from \$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>	\$	\$	\$
2009	90,000	88,271	178,271
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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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>2,000,000</u>	<u>836,558</u>	<u>2,836,558</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:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2009	165,000	233,518	398,518
2010	175,000	225,693	400,693
2011	185,000	216,955	401,955
2012	190,000	207,390	397,390
2013	200,000	197,200	397,200
2014	210,000	186,438	396,438
2015*	225,000	174,175	399,175
2016*	235,000	160,375	395,375
2017*	250,000	145,825	395,825
2018*	265,000	130,375	395,375
2019*	280,000	114,025	394,025
2020**	300,000	96,250	396,250
2021**	315,000	77,031	392,031
2022**	335,000	56,719	391,719
2023**	360,000	35,000	395,000
2024**	<u>380,000</u>	<u>11,875</u>	<u>391,875</u>
Total	<u>4,070,000</u>	<u>2,268,844</u>	<u>6,338,844</u>

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

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

funds or to bring legal action against property holders.

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

Limited obligation bonds payable at June 30, 2009 consist of the following:

	<u>Amount</u>
\$30,138 Second Street Court Improvement assessment district bonds due in annual principal installments ranging from \$2,000 to \$2,138 through September 2017, interest rate is 6.50%.	\$ 18,000
\$97,527 Hyde Street assessment district bonds due in annual principal installments ranging from \$527 to \$10,000 through September 2012, interest rate is 6.75%.	36,000
\$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%.	40,000
\$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%.	76,000
\$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%.	62,000
\$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%.	32,000
\$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%.	539,000

\$100,022 7th, 8th & 9th Street assessment district

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

bonds due in annual principal installments ranging from \$5,000 to \$10,000 through September 2017, interest rate is 6.0%.	<u>65,000</u>
Total limited obligation bonds payable at June 30, 2009	<u>868,000</u>

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2009 are as follows:

<u>Fiscal Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2010	95,000	54,467	149,467
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
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>55,185</u>
Total	<u>868,000</u>	<u>284,130</u>	<u>1,152,130</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 \$119,185 at June 30, 2009. The loan has a 0% imputed interest rate.

<u>Fiscal Year</u>	<u>Principal</u> \$
2010	23,836
2011	23,836
2012	23,836
2013	23,836
2014	<u>23,841</u>
Total	<u>119,185</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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2010	49,429
2011	49,429
2012	49,429
2013	49,429
2014	49,429
2015	49,429
2016	49,429
2017	49,429
2018	49,430
2019	<u>49,430</u>
Total	<u>494,292</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%.

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2009 is as follows:

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>August 1</u>	\$	\$	\$
2009	105,000	108,834	213,834
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>2,031,000</u>	<u>1,015,932</u>	<u>3,046,932</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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 \$437,106 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 \$1,166,485.

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, 2009, the new landfill cell had used 69.5% of its projected space. The estimated closure and post-closure costs were \$1,388,672 and \$1,166,485. The estimated remaining closure and postclosure costs are \$424,085 and \$356,231, which will be recognized as the remaining capacity is used (estimated to be 7.3 years). To date, the fund has \$958,690 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$964,588 and post-closure costs of \$880,262 for the open phase III cell. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

POSTEMPLOYMENT LIABILITY

Plan Description

Employees who have retired from service at eligible retirement age may continue health care benefits at their own cost until age sixty-five. At June 30, 2009, twenty four retired employees participated in this program.

Funding Policy

For the retiree to be fully eligible to participate in the 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 2008-2009, expenditures of \$123,400 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 2008-2009, the City's annual OPEB cost (expense) of \$1,407,900 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 2008-2009, was as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

<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

Funded Status and Funding Progress

The Funded status of the plan as of June 30, 2009, is as follows

Actuarial accrued liability (AAL)	\$12,205,300
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$12,205,300</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$25,715,800
UAAL as a percentage of covered payroll	47%

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 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. The plan unfunded actuarial accrued liability is being amortized over a 30-year amortization period.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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, 2009, 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	24,115,000	-	(775,000)	23,340,000	810,000
Special assessment debt with government commitment	<u>962,000</u>	<u>-</u>	<u>(94,000)</u>	<u>868,000</u>	<u>95,000</u>
Total bonds payable	25,077,000	-	(869,000)	24,208,000	905,000
Capital leases	4,824,262	-	(890,604)	3,933,658	916,391
Debt payable	143,021	494,292	(23,836)	613,477	73,265
Postretirement liability	-	1,019,186	(79,000)	1,019,186	79,000
Note payable	<u>2,141,000</u>	<u>-</u>	<u>(110,000)</u>	<u>2,031,000</u>	<u>105,000</u>
Governmental activity					
Long-term liabilities	<u>32,185,283</u>	<u>1,513,478</u>	<u>(1,972,440)</u>	<u>31,726,321</u>	<u>2,078,656</u>
Less: Bond Issuance costs				<u>(501,993)</u>	
Net Long-term Debt				<u>31,224,328</u>	
	<u>Beginning</u> <u>Balance</u> \$	<u>Additions</u> \$	<u>Reductions</u> \$	<u>Ending</u> <u>Balance</u> \$	<u>Due Within</u> <u>One Year</u> \$
Business-type activities:					
Bonds Payable:					
Revenue bonds	41,970,000	-	(1,540,000)	40,430,000	1,615,000
Less deferred amounts:					
For issuance discounts	<u>(1,320,642)</u>	<u>-</u>	<u>138,377</u>	<u>(1,182,265)</u>	<u>-</u>
Total bonds payable	40,649,358	-	(1,401,623)	39,247,735	1,615,000
Capital leases	2,035,717	-	(309,880)	1,725,837	325,760
Postretirement liability	-	388,714	(44,400)	344,314	44,400
Landfill closure	<u>2,749,460</u>	<u>114,000</u>	<u>(59,920)</u>	<u>2,803,540</u>	<u>59,920</u>
Business-type activity					
Long-term liabilities	<u>45,434,535</u>	<u>502,714</u>	<u>(1,821,823)</u>	<u>44,121,426</u>	<u>2,045,080</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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, 2009 were as follows:

	General Fund \$	Impact Fee Fund \$	Low Income Housing Set Aside Fund \$	Other Governmental Funds \$	Total \$
Encumbrances	248,694	-	7,417	486,457	742,568
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	-	-	1,483,913	-	1,483,913

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, 2009.

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.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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, 2009 totaled \$6,792,251 as follows: Health Benefits \$1,057,205; General Liability \$9,900; and Workers' Compensation \$5,725,146.

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

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

	<u>2007/08</u>	<u>2008/09</u>
	\$	\$
Claims incurred but not reported:		
Beginning	755,695	825,403
Incurred claims	3,790,554	4,737,883
Claims paid	<u>(3,720,846)</u>	<u>(4,496,181)</u>
Ending	<u>825,403</u>	<u>1,067,105</u>
Claims payable:		
Beginning	2,745,791	4,670,705
Incurred claims	5,656,747	7,139,777
Claims paid	<u>(3,731,833)</u>	<u>(6,085,336)</u>
Ending	<u>4,670,705</u>	<u>5,725,146</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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, 2009, 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.

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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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, 2009, 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 2009)		
Police	26.407%	
Fire	27.724%	
Miscellaneous		9.133%

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 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 2009, the city's annual pension cost for Miscellaneous employees was \$1,693,029, Police employees was \$1,635,220 and Fire employees was \$959,669.

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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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>
	\$	%	\$
6/30/07	1,690,069	100	0
6/30/08	1,648,948	100	0
6/30/09	1,693,029	100	0

Police Safety Plan

6/30/07	1,394,979	100	0
6/30/08	1,626,448	100	0
6/30/09	1,635,220	100	0

Fire Safety Plan

6/30/07	797,769	100	0
6/30/08	884,958	100	0
6/30/09	959,669	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).

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, 2008.

Public Miscellaneous Employer Retirement System
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Liability/Ent Age (AAL)</u>	<u>Actuarial Value of Assets (B)</u>	<u>Unfunded AAL (UAAL) (A-B)</u>	<u>Funded Ratio (B/A)</u>	<u>Covered Payroll (C)</u>	<u>UAAL As a % of Payroll ((A-B)/C)</u>
	\$	\$	\$		\$	
Miscellaneous						
6/30/06	64,901	58,576	6,325	90.3%	15,121	41.8%
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%

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

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

G. Prior period adjustments

In the preparation of the financial statements, several entries were necessary to adjust fund equity to begin the fiscal year ending June 30, 2009 for both 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>
	\$	\$	\$	\$
Governmental Activities:				
General Fund	6,651,312	392,175	-	7,043,487
Impact Fee	(1,732,893)	33,643	-	(1,699,250)
Redevelopment Debt	5,111,531	44,480	-	5,156,011
Other Governmental Funds	7,128,900	28,133	-	7,157,033
Business-type Activities:				
Water	59,792,630	-	(66,022)	59,726,608
Sewer	47,801,049	114,731	-	47,915,780
Solid Waste	3,397,418	-	(145,786)	3,251,632
Airport	5,356,630	-	(3,576)	5,353,054

Following are detailed explanations of prior period adjustments:

Governmental Activities:

General Fund:

1. An adjustment was made to move sale of asset revenue in the amount of (\$95,000).
2. An adjustment was made to move expenses to the Enterprise Funds not correctly allocated in the amount of \$353,686.
3. An adjustment for under recording payroll expenditures of 97,044.
4. An adjustment was made to transfer admin fees earned in prior year from Water Fund in the amount of \$41,969.
5. An adjustment was for over stating a receivable in the amount of (\$5,524).

Impact Fee Fund:

1. An adjustment was made to record revenue for sale of fire engine in the amount of \$95,000.
2. An adjustment was made to correct under recording of expenditures in the amount of (\$61,357).

Redevelopment Debt Service Fund:

1. Adjustments were made to adjust accounts payable in the amount of \$44,480.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

Other Governmental Funds:

1. Adjustments were made to accounts payable for overstatement in the amount of \$28,133.

Business-type Activities:

Water Fund:

1. An adjustment was made to adjust prior year administration fees earned by the general fund in the amount of (\$41,969).
2. An adjustment for under recording payroll expenditures of (\$117,468).
3. An adjustment was for over under stating a receivable in the amount of \$93,415.

Sewer Fund:

1. An adjustment for under recording payroll expenditures of (\$158,831).
2. An adjustment was made for unrecording of revenue in the amount of \$273,561.

Solid Waste Fund:

1. An adjustment for under recording payroll expenditures of (\$145,786).

Airport Fund:

1. An adjustment for under recording payroll expenditures of (\$3,576).

H. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Plan Pensions". The Statement is effective for periods beginning after December 15, 2007 for a Phase II government. This Statement establishes standards for measurement, recognition, and display of *other postemployment benefits* (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Implementation of this Statement and the impact of the District's financial statements is explained in detail in Note 15, Post Employment Benefits Other Than Pensions.

Governmental Accounting Standards Board Statement No. 49

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". The Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean ups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Implementation of the GASB Statement No. 49, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2009.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

Governmental Accounting Standards Board Statement No. 52

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments”. The Statement is effective for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. Implementation of the GASB Statement No. 52, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2009.

Governmental Accounting Standards Board Statement No. 55

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of Generally Accepted Accounting Principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s authoritative literature. The “GAAP hierarchy” consists of the sources of accounting principles used in the *preparation* of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. Implementation of the GASB Statement No. 55, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2009.

Governmental Accounting Standards Board Statement No. 56

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 56, “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards”. The Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statement on Auditing Standards. This Statement addresses three issues not included in the authority’s literature that established *accounting* principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. Implementation of the GASB Statement No. 56, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2009.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 (Continued)

I. Subsequent Events

On September 9, 2009, the City issued \$3,491,786 of Wastewater Revenue Refunding Bonds and \$5,444,243 of Solid Waste Revenue Bonds.

The Wastewater Revenue Bonds proceeds were used to redeem the 1998 Waster Water Bonds. The Net Present Value savings for the refunding was \$63,242. The bonds have a coupon rate of 4.1% over a term of 10 years with an semi annual debt service payments totaling \$570,490 per year.

The Solid Waste Revenue Bonds proceeds were used for the redemption of the 1996 and 1998 Solid Waste Revenue Bonds and additional funds for future capital projects. The Net Present Value savings for the refunding was \$125,937. The bond issued for the refunding have a coupon rate of 4.1% over a term of 10 years with semi annual debt service payments totaling \$564,499 per year. The addition bonds issued for future capital projects have a coupon rate of 4.31% over a term of 15 years with semi annual debt service payments totaling \$243,006 each year.

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.

911 Revenue

The government collects fees to support the County wide 911 emergency system.

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

Affordable 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, 2009

	Special Revenue Funds							
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	911 REVENUE	RENTAL REHABILITATION	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS:								
Cash and investments	3,638,815	232,615	230,571	-	503,513	3,094,528	-	1,068,820
Receivables:								
Interest	-	-	-	-	14,150	-	-	-
Taxes	174,369	-	-	-	-	253,443	-	7,929
Accounts	-	-	293	-	-	-	-	-
Intergovernmental	295,000	-	-	-	-	-	-	110,933
Due from other funds	-	-	-	-	-	-	673,427	-
Advances receivable	-	-	-	-	-	-	-	82,050
Loans receivable	-	-	-	-	75,884	161,172	-	-
Total Assets	4,108,184	232,615	230,864	-	593,547	3,509,143	673,427	1,269,732
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	67,615	1,372	-	-	10,269	54,992	-	570
Accrued personnel costs	2,176	-	-	-	-	-	-	7,633
Retentions payable	46,614	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Advances payable	-	-	-	-	-	-	-	-
Deferred revenue	295,000	-	-	-	90,034	161,172	-	-
Unearned revenue	-	-	1,401	-	-	-	-	-
Deposits	-	62,141	-	-	-	-	-	-
Total Liabilities	411,405	63,513	1,401	-	100,303	216,164	-	8,203
Fund Balances:								
Reserved for encumbrances	336,775	-	-	-	3,236	72,587	-	73,859
Reserved for advances	-	-	-	-	-	-	-	82,050
Unreserved - designated for subsequent years expenditures	3,360,004	169,102	229,463	-	490,008	3,220,392	673,427	1,105,620
Total Fund Balances	3,696,779	169,102	229,463	-	493,244	3,292,979	673,427	1,261,529
Total Liabilities and Fund Balances	4,108,184	232,615	230,864	-	593,547	3,509,143	673,427	1,269,732

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009

		Special Revenue Funds						
		RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	AFFORDABLE HOUSING	TOTAL
		\$	\$	\$	\$	\$	\$	\$
ASSETS:								
Cash and investments	-	-	400	281,022	-	682,449	9,732,733	
Receivables:								
Interest	-	-	-	-	-	40,562	54,712	
Taxes	85,831	-	-	-	13,761	-	535,333	
Accounts	-	18,829	2,683	-	4,834	-	26,639	
Intergovernmental	-	37,500	-	-	-	-	443,433	
Due from other funds	-	-	-	-	-	1,004,707	1,678,134	
Advances receivable	-	-	-	-	-	57,435	139,485	
Loans receivable	-	91,812	-	-	-	1,806,782	2,135,650	
Total Assets	85,831	148,141	3,083	281,022	18,595	3,591,935	14,746,119	
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	-	56,263	5,788	-	-	-	196,869	
Accrued personnel costs	-	61,746	14,752	-	-	5,340	91,647	
Retentions payable	-	12,179	-	-	-	-	58,793	
Due to other funds	848,959	-	628,344	-	2,254	-	1,479,557	
Advances payable	-	933,189	-	-	-	-	933,189	
Deferred revenue	-	129,312	-	-	-	1,847,345	2,522,863	
Unearned revenue	-	1,224	-	-	-	-	2,625	
Deposits	-	-	-	-	-	-	62,141	
Total Liabilities	848,959	1,193,913	648,884	-	2,254	1,852,685	5,347,684	
Fund Balances:								
Reserved for encumbrances	-	-	-	-	-	-	486,457	
Reserved for advances	-	-	-	-	-	57,435	139,485	
Unreserved - designated for subsequent years expenditures	(763,128)	(1,045,772)	(645,801)	281,022	16,341	1,681,815	8,772,493	
Total Fund Balances	(763,128)	(1,045,772)	(645,801)	281,022	16,341	1,739,250	9,398,435	
Total Liabilities and Fund Balances	85,831	148,141	3,083	281,022	18,595	3,591,935	14,746,119	

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, 2009

	Special Revenue Funds							
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	911 REVENUE	RENTAL REHABILITATION	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Taxes	828,331	-	-	-	-	2,754,482	-	-
Licenses, permits and fees	-	-	68,531	220,224	-	58,497	-	228,062
Intergovernmental	1,674,850	-	-	-	-	81,246	-	110,933
Interest	57,759	4,131	6,659	-	12,937	93,054	-	26,675
Miscellaneous	-	-	-	-	10,694	2,893,397	-	-
Total revenues	2,560,940	4,131	75,190	220,224	23,631	5,880,676	-	365,670
EXPENDITURES:								
Current:								
General government	-	-	73,045	-	-	2,354,626	-	234,753
Housing	-	-	-	-	41,764	-	-	-
Capital outlay	1,185,431	-	-	-	-	314,581	195,306	571,168
Total expenditures	1,185,431	-	73,045	-	41,764	2,669,207	195,306	805,921
Excess (deficiency) of revenues over (under) expenditures	1,375,509	4,131	2,145	220,224	(18,133)	3,211,469	(195,306)	(440,251)
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(190,000)	-	-	(170,186)	-	(1,047,594)	-	-
Total other financing sources (uses)	(190,000)	-	-	(170,186)	-	(1,047,594)	-	-
Net change in fund balances	1,185,509	4,131	2,145	50,038	(18,133)	2,163,875	(195,306)	(440,251)
Fund balances, July 1	2,511,270	164,971	227,318	(50,038)	511,377	1,083,964	868,733	1,701,780
Prior period adjustments	-	-	-	-	-	45,140	-	-
Fund balances, July 1, as restated	2,511,270	164,971	227,318	(50,038)	511,377	1,129,104	868,733	1,701,780
Fund balances, June 30	3,696,779	169,102	229,463	-	493,244	3,292,979	673,427	1,261,529

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, 2009

	Special Revenue Funds						TOTALS
	RETIREMENT	REDEVELOPMENT	PARKING	BUSINESS	ABANDONED	AFFORDABLE	
	TAX		GARAGE	BOOSTER	VEHICLE	HOUSING	
	\$	\$	\$	\$	\$	\$	\$
REVENUES:							
Taxes	2,255,586	-	-	-	-	-	5,838,399
Licenses, permits and fees	-	-	182,311	-	86,110	158,013	1,001,748
Intergovernmental	-	62,462	-	-	-	-	1,929,491
Interest	-	-	-	6,865	-	-	208,080
Miscellaneous	-	27,919	-	-	-	-	2,932,010
Total revenues	2,255,586	90,381	182,311	6,865	86,110	158,013	11,909,728
EXPENDITURES:							
Current:							
General government	3,038	1,351,360	411,788	-	92,062	-	4,520,672
Housing	-	-	-	-	-	83,956	125,720
Capital outlay	-	908,293	-	-	-	-	3,174,779
Total expenditures	3,038	2,259,653	411,788	-	92,062	83,956	7,821,171
Excess (deficiency) of revenues over (under) expenditures	2,252,548	(2,169,272)	(229,477)	6,865	(5,952)	74,057	4,088,557
Transfers in	-	2,161,625	-	-	-	-	2,161,625
Transfers out	(2,601,000)	-	-	-	-	-	(4,008,780)
Total other financing sources (uses)	(2,601,000)	2,161,625	-	-	-	-	(1,847,155)
Net change in fund balances	(348,452)	(7,647)	(229,477)	6,865	(5,952)	74,057	2,241,402
Fund balances, July 1	(414,676)	(1,021,118)	(416,324)	274,157	22,293	1,665,193	7,128,900
Prior period adjustments	-	(17,007)	-	-	-	-	28,133
Fund balances, July 1, as restated	(414,676)	(1,038,125)	(416,324)	274,157	22,293	1,665,193	7,157,033
Fund balances, June 30	(763,128)	(1,045,772)	(645,801)	281,022	16,341	1,739,250	9,398,435

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, 2009

	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	965,700	965,700	828,331	(137,369)	-	-	-	-
Intergovernmental	637,700	637,700	1,674,850	1,037,150	-	-	-	-
Interest	-	-	57,759	57,759	2,500	2,500	4,131	1,631
Miscellaneous	-	-	-	-	10,000	10,000	-	(10,000)
Total revenues	<u>1,603,400</u>	<u>1,603,400</u>	<u>2,560,940</u>	<u>957,540</u>	<u>12,500</u>	<u>12,500</u>	<u>4,131</u>	<u>(8,369)</u>
EXPENDITURES:								
Capital outlay	2,630,002	2,630,002	1,185,431	1,444,571	16,470	16,470	-	16,470
Total expenditures	<u>2,630,002</u>	<u>2,630,002</u>	<u>1,185,431</u>	<u>1,444,571</u>	<u>16,470</u>	<u>16,470</u>	<u>-</u>	<u>16,470</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,026,602)</u>	<u>(1,026,602)</u>	<u>1,375,509</u>	<u>2,402,111</u>	<u>(3,970)</u>	<u>(3,970)</u>	<u>4,131</u>	<u>8,101</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	(190,000)	(190,000)	(190,000)	-	-	-	-	-
Total other financing sources (uses)	<u>(190,000)</u>	<u>(190,000)</u>	<u>(190,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(1,216,602)	(1,216,602)	1,185,509	2,402,111	(3,970)	(3,970)	4,131	8,101
Fund balances, July 1	<u>2,511,270</u>	<u>2,511,270</u>	<u>2,511,270</u>	<u>-</u>	<u>164,971</u>	<u>164,971</u>	<u>164,971</u>	<u>-</u>
Fund balances, June 30	<u>1,294,668</u>	<u>1,294,668</u>	<u>3,696,779</u>	<u>2,402,111</u>	<u>161,001</u>	<u>161,001</u>	<u>169,102</u>	<u>8,101</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, 2009

	BUSINESS DEVELOPMENT				911 REVENUE			
	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	74,000	74,000	68,531	(5,469)	-	-	220,224	220,224
Interest	1,500	1,500	6,659	5,159	-	-	-	-
Total revenues	<u>75,500</u>	<u>75,500</u>	<u>75,190</u>	<u>(310)</u>	<u>-</u>	<u>-</u>	<u>220,224</u>	<u>220,224</u>
EXPENDITURES:								
Current:								
General government	73,045	73,045	73,045	-	-	-	-	-
Total expenditures	<u>73,045</u>	<u>73,045</u>	<u>73,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,455</u>	<u>2,455</u>	<u>2,145</u>	<u>(310)</u>	<u>-</u>	<u>-</u>	<u>220,224</u>	<u>220,224</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	-	-	-	-	(415,000)	(415,000)	(170,186)	244,814
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(415,000)</u>	<u>(415,000)</u>	<u>(170,186)</u>	<u>244,814</u>
Net change in fund balances	2,455	2,455	2,145	(310)	-	-	50,038	465,038
Fund balances, July 1	<u>227,318</u>	<u>227,318</u>	<u>227,318</u>	<u>-</u>	<u>(50,038)</u>	<u>(50,038)</u>	<u>(50,038)</u>	<u>-</u>
Fund balances, June 30	<u><u>229,773</u></u>	<u><u>229,773</u></u>	<u><u>229,463</u></u>	<u><u>(310)</u></u>	<u><u>(465,038)</u></u>	<u><u>(465,038)</u></u>	<u><u>-</u></u>	<u><u>465,038</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, 2009

	RENTAL REHABILITATION				LIBRARY			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	-	-	-	-	2,619,255	2,619,255	2,754,482	135,227
Licenses, permits and fees	-	-	-	-	57,800	57,800	58,497	697
Intergovernmental	-	-	-	-	115,000	115,000	81,246	(33,754)
Interest	15,000	15,000	12,937	(2,063)	66,800	66,800	93,054	26,254
Miscellaneous	35,000	35,000	10,694	(24,306)	138,468	138,468	2,893,397	2,754,929
Total revenues	50,000	50,000	23,631	(26,369)	2,997,323	2,997,323	5,880,676	2,883,353
EXPENDITURES:								
Current:								
General government	-	-	-	-	2,651,225	2,651,225	2,354,626	296,599
Housing	95,000	95,000	41,764	53,236	-	-	-	-
Capital outlay	-	-	-	-	2,032,670	2,032,670	314,581	1,718,089
Total expenditures	95,000	95,000	41,764	53,236	4,683,895	4,683,895	2,669,207	2,014,688
Excess (deficiency) of revenues over (under) expenditures	(45,000)	(45,000)	(18,133)	26,867	(1,686,572)	(1,686,572)	3,211,469	4,898,041
OTHER FINANCING SOURCES (USES):								
Transfers out	-	-	-	-	(1,047,594)	(1,047,594)	(1,047,594)	-
Total other financing sources (uses)	-	-	-	-	(1,047,594)	(1,047,594)	(1,047,594)	-
Net change in fund balances	(45,000)	(45,000)	(18,133)	26,867	(2,734,166)	(2,734,166)	2,163,875	4,898,041
Fund balances, July 1	511,377	511,377	511,377	-	1,083,964	1,083,964	1,083,964	-
Prior period adjustments	-	-	-	-	-	-	45,140	45,140
Fund balances, July 1, as restated	511,377	511,377	511,377	-	1,083,964	1,083,964	1,129,104	45,140
Fund balances, June 30	466,377	466,377	493,244	26,867	(1,650,202)	(1,650,202)	3,292,979	4,943,181

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, 2009

	MEASURE E SALES TAX				PARKS DEVELOPMENT			
	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	-	-	-	-	200,000	200,000	228,062	28,062
Intergovernmental	-	-	-	-	-	-	110,933	110,933
Interest	-	-	-	-	50,000	50,000	26,675	(23,325)
Total revenues	-	-	-	-	250,000	250,000	365,670	115,670
EXPENDITURES:								
Current:								
General government	-	-	-	-	172,512	172,512	234,753	(62,241)
Capital outlay	637,940	637,940	195,306	442,634	1,673,806	1,673,806	571,168	1,102,638
Total expenditures	637,940	637,940	195,306	442,634	1,846,318	1,846,318	805,921	1,040,397
Net change in fund balances	(637,940)	(637,940)	(195,306)	442,634	(1,596,318)	(1,596,318)	(440,251)	1,156,067
Fund balances, July 1	868,733	868,733	868,733	-	1,630,514	1,630,514	1,630,514	-
Prior period adjustments	-	-	-	-	-	-	71,266	71,266
Fund balances, July 1, as restated	866,733	866,733	866,733	-	1,630,514	1,630,514	1,701,780	71,266
Fund balances, June 30	230,793	230,793	673,427	442,634	34,196	34,196	1,261,529	1,227,333

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, 2009

	RETIREMENT TAX				REDEVELOPMENT			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	2,601,000	2,601,000	2,255,586	(345,414)	-	-	-	-
Intergovernmental	-	-	-	-	50,000	50,000	62,462	12,462
Miscellaneous	-	-	-	-	181,500	181,500	27,919	(153,581)
Total revenues	<u>2,601,000</u>	<u>2,601,000</u>	<u>2,255,586</u>	<u>(345,414)</u>	<u>231,500</u>	<u>231,500</u>	<u>90,381</u>	<u>(141,119)</u>
EXPENDITURES:								
Current:								
General government	-	-	3,038	(3,038)	1,960,231	2,010,231	1,351,360	658,871
Capital outlay	-	-	-	-	6,709,853	6,709,853	908,293	5,801,560
Total expenditures	<u>-</u>	<u>-</u>	<u>3,038</u>	<u>(3,038)</u>	<u>8,670,084</u>	<u>8,720,084</u>	<u>2,259,653</u>	<u>6,460,431</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,601,000</u>	<u>2,601,000</u>	<u>2,252,548</u>	<u>(348,452)</u>	<u>(8,438,584)</u>	<u>(8,488,584)</u>	<u>(2,169,272)</u>	<u>6,319,312</u>
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	2,496,301	2,496,301	2,161,625	(334,676)
Transfers out	(2,601,000)	(2,601,000)	(2,601,000)	-	-	-	-	-
Total other financing sources (uses)	<u>(2,601,000)</u>	<u>(2,601,000)</u>	<u>(2,601,000)</u>	<u>-</u>	<u>2,496,301</u>	<u>2,496,301</u>	<u>2,161,625</u>	<u>(334,676)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(348,452)</u>	<u>(348,452)</u>	<u>(5,942,283)</u>	<u>(5,992,283)</u>	<u>(7,647)</u>	<u>5,984,636</u>
Fund balances, July 1	(414,676)	(414,676)	(414,676)	-	(1,021,118)	(1,021,118)	(1,021,118)	-
Prior period adjustments	-	-	-	-	-	-	(17,007)	(17,007)
Fund balances, July 1, as restated	<u>(414,676)</u>	<u>(414,676)</u>	<u>(414,676)</u>	<u>-</u>	<u>(1,021,118)</u>	<u>(1,021,118)</u>	<u>(1,038,125)</u>	<u>(17,007)</u>
Fund balances, June 30	<u>(414,676)</u>	<u>(414,676)</u>	<u>(763,128)</u>	<u>(348,452)</u>	<u>(6,963,401)</u>	<u>(7,013,401)</u>	<u>(1,045,772)</u>	<u>5,967,629</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, 2009

	PARKING GARAGE				BUSINESS BOOSTER LOAN PROGRAM			
	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	280,908	280,908	182,311	(98,597)	-	-	-	-
Interest	2,500	2,500	-	(2,500)	5,000	5,000	6,865	1,865
Miscellaneous	-	-	-	-	17,000	17,000	-	(17,000)
Total revenues	<u>283,408</u>	<u>283,408</u>	<u>182,311</u>	<u>(101,097)</u>	<u>22,000</u>	<u>22,000</u>	<u>6,865</u>	<u>(15,135)</u>
EXPENDITURES:								
Current:								
General government	182,104	182,104	411,788	(229,684)	22,000	22,000	-	22,000
Total expenditures	<u>182,104</u>	<u>182,104</u>	<u>411,788</u>	<u>(229,684)</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Net change in fund balances	101,304	101,304	(229,477)	(330,781)	-	-	6,865	6,865
Fund balances, July 1	<u>(416,324)</u>	<u>(416,324)</u>	<u>(416,324)</u>	<u>-</u>	<u>274,157</u>	<u>274,157</u>	<u>274,157</u>	<u>-</u>
Fund balances, June 30	<u><u>(315,020)</u></u>	<u><u>(315,020)</u></u>	<u><u>(645,801)</u></u>	<u><u>(330,781)</u></u>	<u><u>274,157</u></u>	<u><u>274,157</u></u>	<u><u>281,022</u></u>	<u><u>6,865</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, 2009

	ABANDONED VEHICLE				AFFORDABLE HOUSING			
	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	86,110	(5,990)	45,000	45,000	158,013	113,013
Interest	-	-	-	-	5,000	5,000	-	(5,000)
Total revenues	<u>92,100</u>	<u>92,100</u>	<u>86,110</u>	<u>(5,990)</u>	<u>50,000</u>	<u>50,000</u>	<u>158,013</u>	<u>108,013</u>
EXPENDITURES:								
Current:								
General government	92,062	92,062	92,062	-	-	-	-	-
Housing	-	-	-	-	122,767	122,767	83,956	38,811
Total expenditures	<u>92,062</u>	<u>92,062</u>	<u>92,062</u>	<u>-</u>	<u>122,767</u>	<u>122,767</u>	<u>83,956</u>	<u>38,811</u>
Net change in fund balances	38	38	(5,952)	(5,990)	(72,767)	(72,767)	74,057	146,824
Fund balances, July 1	<u>22,293</u>	<u>22,293</u>	<u>22,293</u>	<u>-</u>	<u>1,665,193</u>	<u>1,665,193</u>	<u>1,665,193</u>	<u>-</u>
Fund balances, June 30	<u><u>22,331</u></u>	<u><u>22,331</u></u>	<u><u>16,341</u></u>	<u><u>(5,990)</u></u>	<u><u>1,592,426</u></u>	<u><u>1,592,426</u></u>	<u><u>1,739,250</u></u>	<u><u>146,824</u></u>

CITY OF WATSONVILLE, CALIFORNIA
CITY OF WATSONVILLE - DEBT SERVICE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	GENERAL				REDEVELOPMENT			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	-	-	-	-	8,797,887	8,797,887	7,410,132	(1,387,755)
Interest	-	-	19,261	19,261	30,000	30,000	130,671	100,671
Special assessment	154,538	154,538	143,757	(10,781)	-	-	-	-
Total revenues	154,538	154,538	163,018	8,480	8,827,887	8,827,887	7,540,803	(1,287,084)
EXPENDITURES:								
Debt service:								
Principal	1,094,604	1,094,604	1,094,604	-	842,286	842,286	798,836	43,450
Interest and fiscal charges	353,970	353,970	332,580	21,390	3,277,699	3,277,699	3,087,074	190,625
Total expenditures	1,448,574	1,448,574	1,427,184	21,390	4,119,985	4,119,985	3,885,910	234,075
Excess (deficiency) of revenues over (under) expenditures	(1,294,036)	(1,294,036)	(1,264,166)	29,870	4,707,902	4,707,902	3,654,893	(1,053,009)
OTHER FINANCING SOURCES (USES):								
Transfers in	1,294,036	1,294,036	1,294,036	-	594,952	594,952	582,168	(12,784)
Transfers out	-	-	-	-	(4,237,837)	(4,237,837)	(2,161,625)	2,076,212
Total other financing sources (uses)	1,294,036	1,294,036	1,294,036	-	(3,642,885)	(3,642,885)	(1,579,457)	2,063,428
Net change in fund balance	-	-	29,870	29,870	1,065,017	1,065,017	2,075,436	1,010,419
Fund balance, July 1	857,536	857,536	857,536	-	5,111,531	5,111,531	5,111,531	-
Prior period adjustments	-	-	-	-	-	-	44,480	44,480
Fund balances, July 1, as restated	857,536	857,536	857,536	-	5,111,531	5,111,531	5,156,011	44,480
Fund balance, June 30	857,536	857,536	887,406	29,870	6,176,548	6,176,548	7,231,447	1,054,899

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2009

	2009	2008
	\$	\$
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	14,424,456	14,424,456
Buildings and improvements	111,835,078	44,633,848
Machinery and equipment	10,483,955	10,552,615
Infrastructure	25,132,325	24,914,253
Construction in progress	19,194,754	78,978,346
	<u>181,070,568</u>	<u>173,503,518</u>
Total Governmental Funds Capital Assets	<u>181,070,568</u>	<u>173,503,518</u>
 INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE		
General fund	136,096,196	103,523,316
Redevelopment agency funds	1,874,085	26,879,915
Other special revenue funds	38,989,559	38,989,559
Capital leases	4,110,728	4,110,728
	<u>181,070,568</u>	<u>173,503,518</u>
Total Governmental Funds Capital Assets	<u>181,070,568</u>	<u>173,503,518</u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2009

Function and Activity	Land	Buildings	Improvements	Machinery and Equipment	Infrastructure	Construction in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
City Manager	-	-	-	28,605	-	-	28,605
City Clerk	-	-	-	135,583	-	-	135,583
Community Develop.	-	-	-	115,949	-	-	115,949
Finance	-	-	-	443,112	-	-	443,112
Fire	-	778,870	226,800	1,981,401	-	-	2,987,071
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	79,071,106	4,488,020	212,731	20,227,371	19,194,754	136,806,056
Parks and Recreation	-	3,801,826	3,540,534	960,160	-	-	8,302,520
Police	-	2,625,196	581,373	2,000,720	-	-	5,207,289
Public Works	-	2,397,965	12,269,894	1,239,719	4,904,954	-	20,812,532
Total Governmental Funds Capital Assets	<u>14,424,456</u>	<u>90,392,575</u>	<u>21,442,503</u>	<u>10,483,955</u>	<u>25,132,325</u>	<u>19,194,754</u>	<u>181,070,568</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, 2009

Function and Activity	Capital Assets	Additions	Deletions	Capital Assets
	Assets			Assets
	June 30, 2008			June 30, 2009
	\$	\$	\$	\$
City Manager	28,605	-	-	28,605
City Clerk	135,583	-	-	135,583
Community Develop.	115,949	-	-	115,949
Finance	421,386	21,726	-	443,112
Fire	2,987,071	-	-	2,987,071
Housing	26,879,913	-	25,005,828	1,874,085
Library	5,181,460	9,306	833,000	4,357,766
Nondepartmental	104,104,721	71,112,673	38,411,338	136,806,056
Parks and Recreation	8,171,662	145,858	15,000	8,302,520
Police	4,882,708	453,042	128,461	5,207,289
Public Works	<u>20,594,460</u>	<u>218,072</u>	<u>-</u>	<u>20,812,532</u>
Total Government Funds Capital Assets	<u><u>173,503,518</u></u>	<u><u>71,960,677</u></u>	<u><u>64,393,627</u></u>	<u><u>181,070,568</u></u>

STATISTICAL SECTION

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

Contents	Page
Financial Trends	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	137
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	140
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 Eight Fiscal Years**
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities								
Investment in capital assets, net of related debt	44,759	43,902	48,309	47,962	59,561	90,258	109,668	83,010
Restricted	9,967	11,427	19,282	19,237	26,448	28,461	31,184	23,451
Unrestricted	8,455	12,862	13,016	17,581	12,472	12,221	5,924	22,290
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>128,751</u>
Business-type activities								
Investment in capital assets, net of related debt	35,105	36,224	38,332	41,633	44,913	55,569	56,600	76,217
Restricted	-	-	-	-	2,471	2,572	5,094	12,627
Unrestricted	30,732	33,118	35,905	34,171	32,945	38,495	54,654	28,122
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>
Primary government								
Investment in capital assets, net of related debt	79,864	80,126	86,641	89,595	104,474	145,827	166,268	159,227
Restricted	9,967	11,427	19,282	19,237	28,919	31,033	36,278	36,078
Unrestricted	39,187	45,980	48,921	51,752	45,417	50,716	60,578	50,412
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>245,717</u>

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

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses:								
Governmental activities:								
General government	10,735	12,290	11,142	13,851	10,825	11,031	13,913	19,396
Public safety	12,390	14,053	15,884	18,242	17,767	19,704	24,624	35,081
Housing	5,191	3,854	6,976	12,106	8,791	4,321	2,879	2,049
Highways and streets	5,523	4,094	6,126	3,844	4,144	4,142	5,643	6,848
Culture and recreation	4,426	4,802	4,908	5,491	4,920	4,475	5,319	8,177
Interest on long term debt	1,032	1,083	1,937	1,593	3,924	3,505	3,602	3,384
Total government activities	39,297	40,176	46,973	55,127	50,371	47,178	55,980	74,935
Business-type activities:								
Water	6,058	6,110	6,524	7,262	7,824	8,871	10,295	13,871
Sewer	6,006	6,342	7,149	7,398	7,857	8,440	8,517	8,886
Solid Waste	4,948	5,338	5,524	6,512	7,157	8,259	8,373	8,873
Airport	1,991	1,877	2,076	2,537	2,491	3,671	2,642	2,863
Total business-type activities	19,003	19,667	21,273	23,709	25,329	29,241	29,827	34,493
Total primary government	58,300	59,843	68,246	78,836	75,700	76,419	85,807	109,428
Program Revenues:								
Governmental activities:								
Charges for services:								
General government	5,146	4,125	11,756	6,950	7,404	5,687	3,985	3,894
Public safety	1,151	1,195	1,496	1,165	1,797	1,769	1,550	2,068
Housing	950	1,101	2,358	2,128	1,192	2,234	3,960	477
Highways and streets	2,409	2,701	2,257	1,774	2,612	3,006	3,583	2,779
Culture and recreation	1,160	1,207	600	608	756	858	613	3,632
Operating grants and contributions	1,614	1,349	2,260	5,348	5,746	18,079	12,850	5,220
Capital grants and contributions	4,126	4,360	6,802	9,792	7,767	10,012	3,436	1,737
Total governmental activities program revenues	16,556	16,038	27,529	27,765	27,274	41,645	29,977	19,807
Business-type activities:								
Charges for services:								
Water	5,843	7,490	7,897	8,104	8,757	13,875	25,460	12,884
Sewer	6,507	6,241	6,748	7,325	7,638	6,624	6,348	6,449
Solid Waste	5,837	5,842	6,240	7,548	8,373	8,229	8,689	7,798
Airport	1,620	1,613	1,629	1,874	2,032	2,380	2,558	2,239
Operating grants and contributions	332	467	435	252	243	950	811	669
Capital grants and contributions	254	592	1,504	611	1,358	5,407	6,309	1,393
Total business-type activities program revenues	20,393	22,245	24,453	25,714	28,401	37,465	50,175	31,432

Continued

CITY OF WATSONVILLE, CALIFORNIA

Changes In Net Assets

Last Eight Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Net (expense) / revenue								
Governmental activities	(22,741)	(24,138)	(19,444)	(27,362)	(23,097)	(5,533)	(26,003)	(30,123)
Business-type activities	1,390	2,578	3,180	2,005	3,072	8,224	20,348	(3,061)
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>(33,184)</u>
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	9,280	11,066	11,722	16,715	20,459	21,140	21,352	20,759
Sales taxes	7,667	8,087	8,298	8,446	9,786	10,202	11,165	9,969
Franchise taxes	1,288	1,101	1,064	1,115	428	183	157	159
Motor/vehicle taxes	3,035	3,806	2,262	1,142	1,268	1,251	1,195	1,051
Utility users taxes	2,760	2,775	2,678	2,733	2,840	2,966	2,955	2,775
Other taxes	1,093	734	1,937	1,192	927	1,006	1,188	977
Unrestricted investment earnings	1,660	1,020	926	1,257	1,206	1,635	1,441	1,126
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>
Business-type activities:								
Unrestricted investment earnings	1,446	1,049	724	1,097	1,346	2,165	2,142	3,780
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>
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>
Change in net assets								
Governmental activities	4,566	4,456	9,883	5,238	13,817	32,850	13,450	6,693
Business-type activities	2,836	3,628	3,905	3,102	4,418	10,389	22,490	719
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>7,412</u>

Concluded

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

CITY OF WATSONVILLE, CALIFORNIA

Governmental Activities Tax Revenues By Source

Last Eight Fiscal Years

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

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Motor/Vehicle Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$	\$
2002	9,280	7,667	1,288	3,035	2,760	1,093	25,123
2003	11,066	8,087	1,101	3,806	2,775	734	27,569
2004	11,722	8,298	1,064	2,262	2,678	1,937	27,961
2005	16,715	8,446	1,115	1,142	2,733	1,192	31,343
2006	20,458	9,785	428	1,267	2,840	927	35,705
2007	21,140	10,202	183	1,251	2,966	1,006	36,748
2008	21,352	11,165	157	1,195	2,955	1,188	38,012
2009	20,742	9,969	159	1,051	2,775	977	35,673

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									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General fund										
Reserved	4,722	4,758	4,183	3,859	3,921	5,326	6,099	6,035	5,407	2,749
Unreserved	6,178	6,812	5,973	7,089	7,139	2,979	-	949	1,244	72
Total general fund	<u>10,900</u>	<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>
All other governmental funds										
Reserved	6,870	2,020	2,651	2,845	3,273	14,382	7,687	11,977	2,181	2,473
Unreserved, reported in										
Special revenue funds	8,634	10,406	6,504	8,308	13,290	24,446	23,419	3,375	7,561	12,807
Debt service funds	792	919	812	813	32,230	5,736	4,389	4,496	5,970	8,102
Total all other governmental funds	<u>16,296</u>	<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>23,382</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									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Taxes	20,511	22,992	25,055	27,508	27,961	31,343	34,572	36,748	38,012	35,764
Licenses, permits, and fees	4,099	3,111	2,151	4,545	10,880	5,911	7,678	6,649	4,716	4,221
Intergovernmental	5,323	4,437	5,538	6,111	8,051	11,799	14,937	13,171	15,995	8,889
Charges for services	2,652	2,693	2,522	2,715	2,953	2,807	3,144	2,083	3,949	3,581
Fines	423	386	431	206	547	478	564	466	608	666
Interest	1,795	2,449	1,650	1,333	1,318	2,529	2,821	3,534	2,463	1,783
Special assessment	236	110	68	91	83	83	419	153	156	144
Miscellaneous	742	452	1,644	1,190	1,466	2,160	1,044	2,219	4,203	3,519
Total revenues	35,781	36,630	39,059	43,699	53,259	57,110	65,179	65,023	70,102	58,567
Expenditures										
Current:										
General government	9,454	10,057	10,550	10,273	9,993	11,483	10,636	10,298	8,937	11,610
Public safety	10,172	11,479	12,681	13,206	14,728	17,024	17,987	18,759	16,415	22,113
Housing	1,831	1,932	4,228	2,042	2,704	6,901	4,575	4,285	1,933	1,322
Streets	1,421	1,276	1,510	2,492	2,776	2,964	3,666	3,875	3,647	4,159
Culture and recreation	2,413	2,733	3,813	3,886	4,112	4,402	4,449	3,955	3,156	4,422
Capital outlay	7,568	6,011	10,058	7,911	11,317	17,591	29,609	33,143	37,607	6,421
Debt service:										
Principal	1,085	528	730	602	629	2,025	1,514	1,715	1,828	1,877
Interest and fiscal charges	746	895	1,008	1,079	1,681	1,344	3,902	3,543	3,602	3,436
Bond issuance costs	-	-	-	-	692	-	-	-	-	-
Total expenditures	34,690	34,911	44,578	41,491	48,632	63,734	76,338	79,573	77,125	55,360
Excess (deficiency) of revenues over (under) expenditures	1,091	1,719	(5,519)	2,208	4,627	(6,624)	(11,159)	(14,550)	(7,023)	3,207
Other financing sources (uses)										
Sale of fixed assets	1,435	18	524	5	440	-	-	-	-	-
Bond proceeds	-	205	-	30	33,698	738	-	179	-	-
Payment to defease bonds	-	-	-	-	(1,819)	-	-	-	-	-
Operating transfers in	5,145	4,323	4,024	5,621	5,217	7,536	7,827	10,550	7,916	7,169
Operating transfers out	(5,088)	(4,077)	(4,024)	(5,621)	(5,217)	(7,536)	(7,827)	(10,550)	(7,916)	(7,169)
Total other financing sources (uses)	1,492	469	524	35	32,319	738	-	179	-	-
Net change in fund balances	2,583	2,188	(4,995)	2,243	36,946	(5,886)	(11,159)	(14,371)	(7,023)	3,207
Debt service as a percentage of noncapital expenditures	7.2%	5.2%	5.3%	5.3%	6.7%	7.9%	13.1%	12.8%	15.9%	12.2%

CITY OF WATSONVILLE, CALIFORNIA

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

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

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Motor/Vehicle Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$	\$
2000	8,101	6,151	956	1,829	2,459	1,015	20,511
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	20,833	9,969	159	1,051	2,775	977	35,764

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						
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
2000	1,265,192	341,989	N/A	199,432	N/A	71,445	1,735,168	1.12	2,767,413	0.63
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	3,610,872	1.13	3,322,197	1.09

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**

Year	Basic Countywide Levy	School Districts	Retirement	Total
2000	1.00000	0.012	0.110	1.12200
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	1.16215
2007	1.00000	0.052	0.110	1.16215
2008	1.00000	0.055	0.077	1.13200
2009	1.00000	0.060	0.077	1.13700

Source: City of Watsonville - Accounts Payable Department

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2009
(amounts expressed in thousands)

	2009			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$		%	\$		%
Watsonville Hospital Corp.	59,008	1	1.63	51,963	1	3.52
S. Martinelli Co.	29,275	2	0.08	19,407	2	1.32
Granite Construction Co.	20,743	3	0.57	19,300	3	1.31
Hd Development of Maryland Inc	17,832	4	0.49			
Deutsche Bank National Trust	17,009	5	0.47			
OW George Jr. Trustee, etal	16,259	6	0.45			
WRI Freedom Center LP	15,731	7	0.44	11,284	10	0.77
Albertsons Inc.	15,594	8	0.43	13,840	6	0.94
Watsonville Square Llc	14,544	9	0.40	12,932	7	0.88
Meadows Mobile Manor Llc	13,888	10	0.38			
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>219,883</u>		<u>5.34</u>	<u>185,243</u>		<u>12.52</u>

Source: MBIA Muni Services Company

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

CITY OF WATSONVILLE, CALIFORNIA

**Property Tax Collections
Last Ten Fiscal Years**

Fiscal Year	General Current	General Prior	Retirement Current	Total
	\$	\$	\$	\$
2000	2,852,662	3,643	1,804,098	4,660,403
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

General Real Estate Property Taxes does not include Redevelopment Tax Increments.

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)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Debt	Special Assessment Debt	Capital Leases	Revenue Bonds	General Obligation Debt	Capital Leases			
	\$	\$	\$	\$	\$	\$	\$		
2000	3,978	598	180	24,750	2,318	3,932	35,756	6.30%	0.939
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	2,804	1,726	76,184	8.59%	1.478

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

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

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	General Obligation Debt \$	Less: Amounts Available in Debt Service Fund \$	Total \$	Percentage of Estimated Actual Taxable Value of Property	Per Capita \$
2000	35,158	87	35,071	1.27%	109
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	75,316	887	74,429	2.24%	69

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>2000</u>	<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>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	65,069	65,465	68,357	87,262	96,175	112,437	118,450	118,487	142,972	135,408
Total net debt applicable to limit	3,891	3,317	4,408	3,970	29,213	27,296	27,301	26,494	26,399	25,535
Legal debt margin	<u>61,178</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit	5.980%	5.067%	6.448%	4.550%	30.375%	24.277%	23.049%	22.360%	18.464%	18.858%

Legal Debt Margin Calculation for Fiscal Year 2009

Assessed value	\$3,610,872
Add back: exempt real property	
Total assessed value	<u>3,610,872</u>
Debt Limit = 3.75% of assessed valuation	135,408
Debt applicable to limit	26,422
Less: Amount set aside for repayment of general obligation debt	<u>887</u>
Total net debt applicable to limit	<u>25,535</u>
Legal debt margin	<u>\$109,873</u>

CITY OF WATSONVILLE, CALIFORNIA

Historical and Projected Library Special Sales Tax Revenue

Fiscal Year	Gross Revenues
	\$
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	2,208,468

Library Certificates of Participation outstanding
as of 6-30-09 \$3,800,000.

Total Library revenues received from Measure B Taxes
as of 6/30/09 \$24,749,791

* 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 budget by City of Watsonville.

CITY OF WATSONVILLE, CALIFORNIA

Library Special Revenues Certificates of Participation Debt Service Coverage

Fiscal Year	Gross Revenues	Debt ** Service	Coverage
	\$	\$	
2004-05	2,286,127	1,046,000	218.56%
2005-06	2,698,198	1,046,000	257.95%
2006-07	2,758,601	1,046,000	263.73%
2007-08	2,922,527	1,046,000	279.40%
2008-09	2,754,482	1,046,000	263.33%
2009-10*	2,208,468	1,046,000	211.13%

* This amount is the estimated revenue by the County of Santa Cruz.

** Maximum annual debt service.

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

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
1999-00	6,873,558	3,620,708	3,252,850	727,604	447.06%
2000-01	6,495,620	4,073,365	2,422,255	728,404	332.54%
2001-02	6,551,010	5,073,608	1,477,402	728,234	202.87%
2002-03	8,025,689	5,214,380	2,811,309	730,671	384.76%
2003-04	8,651,909	5,623,077	3,028,832	732,256	413.63%
2004-05	8,823,153	6,230,007	2,593,146	732,396	354.06%
2005-06	9,444,900	6,838,936	2,605,964	723,476	360.20%
2006-07	19,240,472	6,438,844	12,801,628	723,676	1768.97%
2007-08	32,555,179	6,433,291	26,121,888	734,001	3558.84%
2008-09	17,406,267	7,456,703	9,949,564	731,995	1359.24%

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

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**

Fiscal Year	(1) Gross Revenues	(2) Direct Operating Expenses	Net Revenues available for Debt Service	(3) Debt Service	Coverage
	\$	\$	\$	\$	
2009-10	11,590,344	7,605,837	3,984,507	735,000	542.11%
2010-11	11,590,344	7,757,954	3,832,390	735,000	521.41%
2011-12	11,590,344	7,913,113	3,677,231	735,000	500.30%
2012-13	11,590,344	8,071,375	3,518,969	735,000	478.77%
2013-14	11,590,344	8,232,803	3,357,541	735,000	456.81%

(1) Based on total actual 2008-09 water revenues, less payment for recycle water project of \$4,645,297 and grant revenue of \$1,170,626.

(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 2008-09**

User	Revenues	Percentage of Total
	\$	%
1 Martinelli & Company	134,060	1.63
2 Pajaro Valley Unified School District	120,311	1.46
3 Meadows Manor Apartments	47,556	0.58
4 Sunny Meadow Apartments	45,463	0.55
5 Pinto Lake Mobile Estates	40,522	0.49
6 Blue Ribbon Frozen Foods	35,903	0.44
7 H A Rider & Son	35,024	0.43
8 Farmer's Processing	31,837	0.39
9 Francis Property MTMT Inc.	21,756	0.26
10 Corralitos Creek Assoc.	22,871	0.28
Total Top Ten	<u>535,303</u>	<u>0.06</u>
Total Revenues	<u><u>8,239,143</u></u>	<u><u>100.00</u></u>

Source: City of Watsonville, Water Department

CITY OF WATSONVILLE, CALIFORNIA

**Water Service Accounts
Last Ten Calendar Years**

Year	Single/Multiple Family Residential	Commercial	Industrial	Other	Totals
1999	11,656	1,631	68	764	14,119
2000	11,089	1,227	35	757	13,108
2001	11,196	1,258	34	709	13,197
2002	11,226	1,354	33	564	13,177
2003	11,474	1,293	32	743	13,542
2004	11,920	1,445	31	599	13,995
2005	13,602	1,285	21	498	15,406
2006	13,749	1,432	24	633	15,838
2007	13,768	1,357	13	350	15,488
2008	14,018	1,405	20	353	15,796

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

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

Calendar Year	Gallons Delivered (1)
2000	2,370.7
2001	2,347.6
2002	2,373.1
2003	2,306.1
2004	2,542.8
2005	2,288.3
2006	2,366.3
2007	2,366.3
2008	2,387.4
2009	2,641.2

(1) Millions

Source: City of Watsonville, Water Department

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
1999-00	6,327,593	4,412,426	1,915,167	759,774	252.07%
2000-01	6,980,900	3,959,010	3,021,890	764,049	395.51%
2001-02	7,343,928	4,047,673	3,296,255	762,474	432.31%
2002-03	7,178,528	4,525,949	2,652,579	734,757	361.01%
2003-04	8,129,657	5,338,504	2,791,153	760,261	367.13%
2004-05	8,219,068	5,461,906	2,757,162	763,706	361.02%
2005-06	8,732,930	5,994,106	2,738,824	763,696	358.63%
2006-07	8,251,547	6,438,844	1,812,703	757,579	239.28%
2007-08	7,563,759	6,169,360	1,394,399	760,301	183.40%
2008-09	7,363,874	6,516,717	847,157	766,381	110.54%

Direct operating expenses are exclusive of depreciation expense and includes net operating transfers.

Principal and Interest are for the next fiscal year.

Source: City of Watsonville's Finance Department.

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	(1)	(2)	Net Revenues available for Debt Service	Debt Service	Coverage
	Gross Revenues	Direct Operating Expenses			
	\$	\$	\$	\$	
2009-10	7,363,874	6,647,051	716,823	766,381	93.53%
2010-11	7,363,874	6,779,992	583,882	766,381	76.19%
2011-12	7,363,874	6,915,592	448,282	766,381	58.49%
2012-13	7,363,874	7,053,904	309,970	766,381	40.45%
2013-14	7,363,874	7,194,982	168,892	766,381	22.04%

(1) Based on total actual 2008-09 sewer revenues.

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

Includes the Series 1998 Bonds not refunded.
Assumes that no additional Bonds will be issued.

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's Finance Department.

CITY OF WATSONVILLE, CALIFORNIA

**Ten Largest Customers and Percentage of Total
Sewer System Revenues
Fiscal Year 2008-09**

User	Revenues	Percentage Of Total
	\$	
1 Del Mar Foods, Inc.	433,606	6.72%
2 Martinelli & Co.	260,147	4.03%
3 D&G Sanitation	100,585	1.56%
4 Mi Pueblo San Jose Inc.	76,973	1.19%
5 Al's Septic	75,186	1.17%
6 Blue Ribbon Frozen Food	69,105	1.07%
7 Meadow Manor	64,674	1.00%
8 Salinas Tallow Co LLC	57,100	0.89%
9 Sunny Meadow Apartments	55,500	0.86%
10 Fox Factory Inc.	52,342	0.81%
Total Top Ten	<u>1,245,218</u>	<u>19.31%</u>
Total Revenues	<u><u>6,448,643</u></u>	<u><u>100.00%</u></u>

Source: Clty of Watsonville, Public Works Department

CITY OF WATSONVILLE, CALIFORNIA

**Sewer Service Accounts
Last Ten Calendar Years**

Year	Single/Multiple Family Residential	Commercial	Industrial	Other	Totals
1999	8,024	1,462	68	401	9,955
2000	7,641	1,084	35	437	9,197
2001	7,925	1,164	34	396	9,519
2002	7,948	1,249	33	259	9,489
2003	8,185	1,159	32	411	9,787
2004	8,592	1,341	31	480	10,444
2005	9,970	1,154	21	436	11,581
2006	10,328	896	23	89	11,336
2007	10,351	899	24	89	11,363
2008	10,827	900	22	78	11,827

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Solid Waste Revenue Bond Coverage
Last Ten Fiscal Years**

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
1999-00	5,683,816	4,247,042	1,436,774	766,628	187.41%
2000-01	5,777,346	4,107,786	1,669,560	768,468	217.26%
2001-02	6,059,287	4,115,898	1,943,389	777,798	249.86%
2002-03	6,072,532	4,457,472	1,615,060	764,268	211.32%
2003-04	6,374,177	4,737,132	1,637,045	770,483	212.47%
2004-05	7,656,671	5,596,551	2,060,120	765,433	269.14%
2005-06	8,616,648	6,077,407	2,539,241	769,538	329.97%
2006-07	8,654,426	6,758,000	1,896,426	772,225	245.58%
2007-08	8,689,219	6,923,269	1,765,950	768,438	229.81%
2008-09	7,951,049	7,010,642	940,407	768,308	122.40%

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

Debt service is for the next fiscal year.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

**Estimated Solid Waste Revenue Bond Coverage
Next Five Fiscal Years**

Fiscal Year	Gross (1) Revenues	Direct (2) Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
2009-10	7,951,049	7,150,855	800,194	777,818	102.88%
2010-11	7,951,049	7,293,872	657,177	777,818	84.49%
2011-12	7,951,049	7,439,749	511,300	777,818	65.74%
2012-13	7,951,049	7,588,544	362,505	777,818	46.61%
2013-14	7,951,049	7,740,315	210,734	777,818	27.09%

(1) Based on actual solid waste revenues for fiscal year ending June 30, 2009.

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

A - Debt Service includes the 1998 and 1996 Series Bonds,

B - Bonds not refunded.

C - Assumes that no additional Bonds will be issued.

D - 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
Solid Waste Revenues
Fiscal Year 2008-09**

User	Revenues	Percentage of Total
	\$	%
1 Pajaro Valley Unified School District	228,654	2.93
2 Mi Pueblo San Jose Inc	76,973	0.99
3 Meadow Manor	64,674	0.83
4 Sunny Meadow Apartments	55,499	0.71
5 Fox Factory Inc.	50,342	0.65
6 North Gate Apts.	45,524	0.58
7 Rancho Cerritos	44,532	0.57
8 Couch Distributing Co. Inc.	39,623	0.57
9 Pajaro Hills Retail LLC	36,792	0.51
10 Monterey Vista Mobile Home	34,978	0.45
Total Top Ten	<u>677,591</u>	<u>8.79</u>
Total Revenues	<u><u>7,797,858</u></u>	<u><u>100.00</u></u>

Source: City of Watsonville, Public Works Department

CITY OF WATSONVILLE, CALIFORNIA

**Estimated Solid Waste Deposited
Last Ten Calendar Years**

Calendar Year	Solid Waste Deposits (tons)
1999	30,780
2000	30,494
2001	31,964
2002	30,029
2003	35,133
2004	37,953
2005	40,938
2006	42,789
2007	36,539
2008	31,484

Source: City of Watsonville

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%

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.

CITY OF WATSONVILLE, CALIFORNIA

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

	<u>2009</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	2,057	1	11.82%	2,100	1	13.39%
Watsonville Community Hospital	714	2	4.10%	675	2	4.30%
Fox Factory	400	3	2.30%			0.00%
City of Watsonville *	392	4	2.25%	524	4	3.34%
West Marine Products	357	5	2.05%	450	8	
S Martinelli & Co.	240	6	1.38%			
Target	211	7	1.21%			
Granite Construction Company	200	8	1.15%	480	6	3.06%
Couch Distributing	170	9	0.98%			
HOME Depot	160	10	0.92%			
Agrilink Foods, Inc.				793	3	5.06%
Graniterock Company				460	7	2.93%
Del Mar Food Products, Inc				500	5	3.19%
Hadco				375	9	2.39%
Columbia Pacific Extrusion				235	10	1.50%
Total	<u>4,901</u>		<u>28.17%</u>	<u>6,592</u>		<u>35.48%</u>

* Full time equivalent employees

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

CITY OF WATSONVILLE, CALIFORNIA

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government	12.00	12.00	12.00	*	18.50	18.50	18.50	19.00	7.50	7.00
								*/***		
City Clerk	N/A	***	4	4.00						
Community Development	15.50	16.50	16.50	17.50	17.50	17.50	18.50	17.00	19.00	16.00
			*					*		
Finance	20.75	20.75	24.00	17.00	17.00	17.00	17.00	23.75	24.75	24.75
Fire	32.75	32.75	36.75	35.75	35.00	35.00	35.00	36.00	40.00	40.00
Police										
Officers	65.00	67.00	67.00	67.00	64.00	64.00	64.00	72.00	73.00	75.00
Civilians	15.50	21.00	21.00	21.00	24.50	24.50	24.50	20.00	21.00	21.00
Library	17.75	21.50	21.50	25.75	25.75	25.75	25.75	25.50	25.50	24.50
Parks & Community Services	26.25	26.25	30.50	**	35.75	35.75	35.75	35.75	36.50	38.00
Public Works	17.75	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	4.75	4.50	4.50	6.50	6.50	6.50
			**							
Enterprise Community	3.00	3.00	2.00	-	-	-	-	-	-	-
			**							
Neighborhood Services	1.00	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	10.00	11.00	10.95	9.45	9.95	9.95	9.95	6.95	7.50	7.50
Solid Waste	24.80	28.40	28.40	31.00	31.00	31.00	33.00	36.40	37.40	36.40
Wastewater	34.00	34.00	34.00	33.00	33.00	36.00	36.00	35.00	38.00	38.25
Water	23.00	21.00	21.00	24.00	24.00	24.00	26.00	25.00	27.00	27.25
	323.80	347.15	357.65	366.50	366.75	369.50	378.00	381.15	397.65	392.15

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

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

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

CITY OF WATSONVILLE, CALIFORNIA

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government:										
City Council meetings	25	25	21	25	25	24	27	24	21	27
Resolutions processed	365	386	315	384	385	320	249	311	243	232
Recruitments	44	44	53	27	31	43	25	42	29	25
Community Development:										
Planning application reviews	205	207	345	400	500	520	425	486	543	451
Construction inspections	6,161	6,352	3,204	4,548	13,225	9,006	7,000	6,208	4,361	3,344
Building Permits	779	600	835	1,184	1,239	918	1,160	978	727	1032
Finance:										
Payroll checks issued	11,842	10,024	12,947	12,917	13,733	13,548	12,980	12,188	13,477	13,446
Utility accounts	13,152	13,175	13,280	13,091	13,274	14,035	14,433	14,466	15,541	14,546
A/P checks issued	8,184	7,978	8,864	9,336	9,063	9,155	9,198	9,560	9,054	8,697
Fire:										
Field incidents dispatched	2,779	3,206	3,312	3,312	3,354	3,065	3,367	3,459	3,889	3,552
Library:										
Items used/checked out	320,411	322,000	351,136	342,476	379,332	385,010	390,000	337,018	395,000	397,428
Parks & Community Services:										
Facility Drop In Totals	3,576	3,336	2,620	1,768	1,364	1,494	1,187	1,524	1,824	2,671
Police:										
Moving and Parking Citations	10,681	11,271	12,372	12,366	13,248	14,387	16,567	15,926	14,854	15,807
Service Calls Dispatch	60,717	55,659	57,183	62,000	57,667	54,819	58,559	61,745	81,281	81,303
URC Crime Rate	49	42	48	48	50	43	46	46	52	43
(# crimes/1,000 population, calendar years)										
Wastewater:										
Annual volume of septage treated (in million gallons)	8.43	7.62	7.62	7.62	7.62	9.62	9.62	4.90	7.11	7.17
Water:										
Water production (acre feet)	6,323	7,615	7,683	7,588	7,804	7,574	7,915	8,481	8,634	8,806
Solid Waste:										
Refuse handled (tons)	31,400	31,400	31,965	30,029	35,133	37,935	42,789	39,334	36,539	31,484
Recycled material (tons)	4,004	4,004	5,526	4,632	5,305	5,540	5,554	5,560	5,913	6,016

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

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

Function	<u>2000</u>	<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>
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	18	18	18	18	18	18	19	19
Patrol motorcycles	2	2	4	4	5	5	5	5	5	5
Library:										
Buildings	2	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	17	17	17	17	21	21	21	24	21	21
Acreage of parks	62.5	62.5	62.5	62.5	65.0	65.0	65.0	85.0	65.0	85.0
Community Centers	4	4	5	5	5	5	6	6	6	6
Public Works:										
Miles of streets	83	83	83	85	85	96	96	96	96	96
Airport:										
Runways	2	2	2	2	2	2	2	2	2	2
Wastewater:										
Treatment plants	1	1	1	1	1	1	1	1	1	1
Capacity of treatment plant* *(gallons per day in millions)	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Water:										
Maximum pumping capacity*	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	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	7.0	6.3	6.3
Solid Waste:										
Collection trucks	12	13	13	13	13	13	13	20	20	20

Source: City of Watsonville departments

This Page Left Intentionally Blank

