

City of Watsonville, California

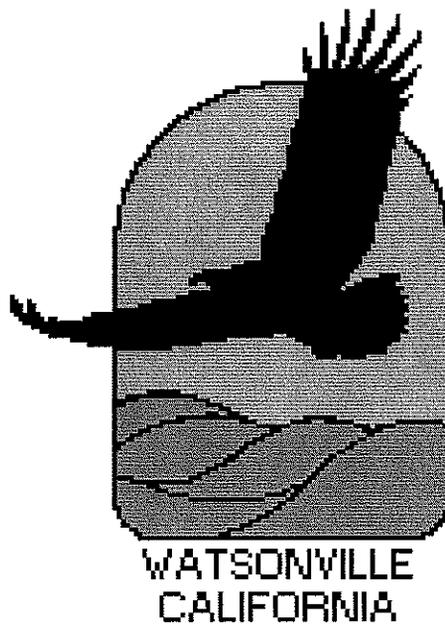
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Prepared by the Finance Department



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CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2007

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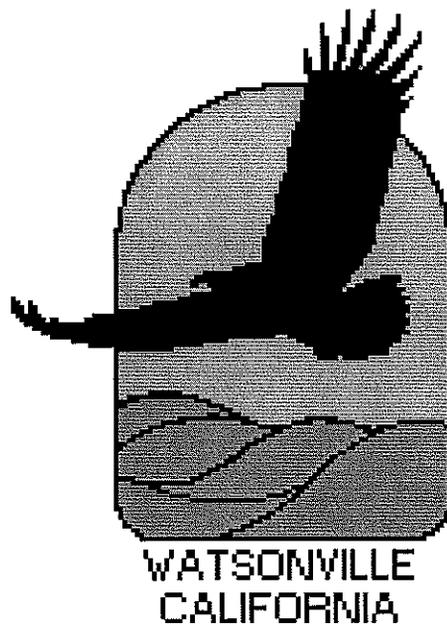
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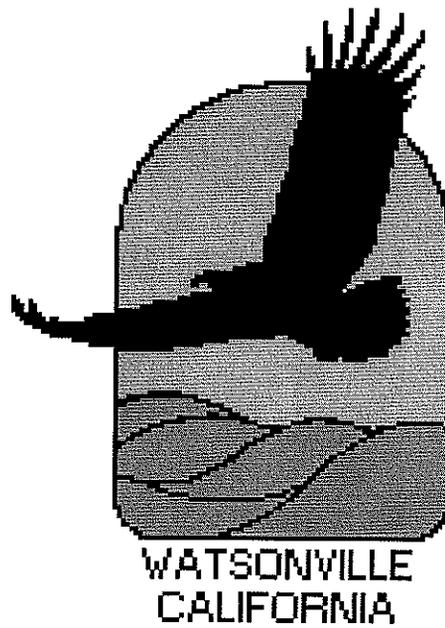
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INTRODUCTORY SECTION

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CITY OF WATSONVILLE

"Opportunity through diversity; unity through cooperation"



**ADMINISTRATION
BUILDING**
275 Main Street
Fourth Floor
Fax 831.761.0736

■
MAYOR & CITY COUNCIL
275 Main Street
Fourth Floor
831.768.3008
CITY MANAGER
831.768.3010
CITY ATTORNEY
831.768.3030
CITY CLERK
831.768.3040
PERSONNEL
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■
CITY HALL OFFICES
250 Main Street

■
**COMMUNITY
DEVELOPMENT**
831.768.3050

Fax 831.728.6173

FINANCE

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Fax 831.763.4066

**PUBLIC WORKS &
UTILITIES**

831.768.3100

Fax 831.763.4065

PURCHASING

831.768.3461

Fax 831.763.4066

■
REDEVELOPMENT & HOUSING

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Fax 831.763.4114

■
AIRPORT

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831.768.3480

Fax 831.763.4058

■
FIRE

115 Second Street

831.768.3200

Fax 831.763.4054

■
LIBRARY

275 Main Street

831.768.3400

Fax 831.763.4015

■
PARKS & COMMUNITY SERVICES

30 Maple Avenue

831.768.3240

Fax 831.763.4078

December 21, 2007

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, 2007.

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, 2007, 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, 2007, 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 51,258 people as of January 1, 2007.

Watsonville became a charter City government in 1908. Policymaking and legislative authority are vested in the governing council, which consists of seven council members, one of which 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 council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's 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 government's manager uses these requests as a starting point for developing a proposed budget. The government's 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. For the general fund, impact fee fund, redevelopment low income housing fund, and redevelopment and housing grant fund these 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 90.

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 cost of housing. 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. Watsonville has the most affordable housing in the County. Watsonville has 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. Watsonville also has a higher

unemployment rate in comparison to the rest of the County. According to the State Employment Development Department, the average estimated unemployment rate for fiscal year 2006/07 was 12.5% for Watsonville and 5.6% for the County as a whole. However, Watsonville's rate has been on a steady decline since reaching 16.9% in fiscal year 2002/03.

The community has proven to be resilient, weathering high unemployment and providing a strong sense of community. It was challenged again during the 2006/07 fiscal year when its second largest employer, Birds Eye Foods, Inc., closed its operations. Its workforce represented about 2.7% of the City's total workforce. This closure is a further sign of the decline of the frozen food industry in the area and country as a whole.

Consistent development has and will assist the community in forming a stronger economic base thereby lowering unemployment. Over the last several years, the City has seen substantial commercial, residential, and industrial development. This development has occurred in tandem with the growth of the City. Today's population of 51,258 represents a 65% increase since its 1990 population of 31,099. In the latter half of the 1990s, a major shopping center was opened and initial plans for 1,000 new dwelling units were approved. Development growth has continued past the turn of the century. In the past few years, Home Depot, Applebee's and Ross Dress-for-Less were opened along with a new High School, Middle School and Elementary School. As mentioned later in more detail, the City will also open in fiscal year 2007/08 a new joint use Civic Center that will house the Santa Cruz County Courts, City of Watsonville's Library, City of Watsonville Administrative offices, and commercial office spaces. This building will bring new interest to and will help revitalize the downtown area.

In addition, the City completed in fiscal year 2006/07 the annexation of the Manabe-Ow parcels that total 89+ gross, undeveloped acres with an estimated 60 net developable acres. This land will be used predominantly for industrial purposes and is estimated to create an additional 2,000 jobs over the next 20 years. It is expected also to spur reinvestment in the surrounding industrial areas, further aiding in revenue growth and job creation.

Certain segments of the General Fund's revenues provide a glimpse of how the local economy is doing. Sales tax specifically is a good barometer of residential and visitor's ability to have and willingness to spend their resources. Property tax provides a glimpse of how strong housing prices are increasing or decreasing. 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 has grown steadily over the past 5 fiscal years and grew by 17.4% over the previous fiscal year and exceeded the original budget by 9.5%. However, with the changes in the local housing economy well underway, we anticipate that Property Tax segment growth to slow to a lower rate of 5% for next fiscal year, with lower increases in the out years.

Sales Tax revenue has been relatively consistent over the past few years with a better than expected growth rate. The aggregate General Fund Sales Tax revenue grew by 4.7% over the previous fiscal year and exceeded the original budget by 9.8%. However, of the portion

that is received closest to the time of the transaction and is thus more reflective of current conditions, there was a 3.2% decline in receipts from the prior year and only exceeded estimates by 3.5%. This is perhaps reflective of the factors that can negatively impact the whole sales tax category; current slow down in the auto industry, competition from surrounding communities in the short and long term (Home Depot in Soquel, possible retail development in Pajaro, etc.), and a reduction in consumer spendable income.

Community development fees have steadily decreased over the past years and continued that trend for fiscal year 2006/07 with a 41.5% decline in revenue from the previous fiscal year and was below revised estimates for fiscal year 2006/07 by 3.2%.

Long-term financial planning. The City will experience mixed financial outcomes in the coming years driven by local and state factors.

The voters of the State of California passed several measures (1A, 1B, 1C and 1E) in November 2006 that provide access to specific project funds to the City of Watsonville in the coming years. Proposition 1B and 1C provide dedicated funding for transportation projects and housing needs respectively. Proposition 1E provides funding for flood prevention to help mitigate the City's risk from levee failure or other flooding.

In contrast to these benefits, the State's fiscal imbalance continues to be a threat to local governments funding. Although the passage of the prior Proposition 1A in November 2004 has added constitutional protection to the City's revenues from State takeaways, the City is still vulnerable due to the State's ability to, with a two-thirds vote by the legislature, borrow additional City funds subject to certain conditions (i.e., can only borrow twice in a 10-year period and must repay prior funds borrowed first).

The State's independent Legislative Analysts office (LAO) predicted in their November 2007 report that the State budget will continue its operating shortfalls through 2012/2013 with a just under a \$3 billion shortfall that year. For the 2007/2008 budget year, the LAO projects a \$1.9 billion deficit which could grow to nearly \$10 billion in 2008/2009 absent any corrective actions by the state.

The City continues to face significant local adversity over the coming years. Some of those are as follows:

- Increased population and service demands;
- High unemployment rates;
- Slow growth in revenues; and
- Increased employment costs (health, workers compensation, etc)

Already management has taken the short-term measure of proactively freezing a portion of the Capital Improvement Program to produce a balanced 2007/08 budget.

To help develop a long term financing strategy, the City Council adopted during fiscal year 2006/07 the recommendations from a "Blue Ribbon Committee" formed to "examine and achieve a consensus on the type of alternative resource(s) to provide a long-term,

sustainable revenue base to enable the City of Watsonville to maintain or grow existing service levels.” Phase 1 of the plan was completed by the voters in November 2006 when they approved two negating measures that reduced an ad-valorem property tax, known as the Retirement Tax, and increase the local sales tax by ¼%. If the remaining phases are pursued as developed, it could generate an additional, estimated \$1.7 million for expanded Fire services and \$1.9 million for expanded Police and Recreational services.

To further spur local development and economic growth, the City of Watsonville will complete in fiscal year 2007/08 two major development projects with the Redevelopment Agency of the City of Watsonville; a \$10 million, 6 story parking structure and a \$41 million, 4 story Civic Center project, which will house the Santa Cruz County Courts, City of Watsonville’s Library, City of Watsonville Council Chambers and Administrative offices, and commercial office and retail spaces. The parking garage and a portion of the building will begin operations in January 2008 followed shortly thereafter by the Santa Cruz County Courts and then the Library. On June 15, 2004, the City issued Library Measure E Sales Tax Revenue bonds and the Redevelopment Agency issued Redevelopment Tax Increment Revenue bonds to assist the City on the project. Two federal grants and the Redevelopment Agency are funding the attached parking garage structure. Already, new development and business opportunities have occurred in the downtown due to this project (planned reopening of a downtown movie theater, expansion of Cabrillo College, construction of new commercial lease space).

The City has also completed 1 of 2 new critical connector bridges; the Watsonville Slough Bridge. The second bridge, the Struve Slough Bridge, remains under construction and on schedule to be completed in fiscal year 2007/08. The Struve Slough Bridge has a budget of \$9.2 million and is being funded by impact fees and a federal grant. The Watsonville Slough Bridge had a budget of \$6.4 million and was funded by impact fees and an 80% matching federal grant.

The City’s Water and Sewer Funds are currently working with the Pajaro Valley Water Management Agency (PVWMA) on constructing a water recycling facility and operations center with an estimated cost of \$47 million. The City has received a grant for \$20 million from the United States Department of Interior and will share the remaining costs with the PVWMD. The City has also issued in November 2007 \$27.3 million in water revenue bonds that will be repaid by PVWMA. The plant is expected to be completed during 2007/2008.

Finally, as mentioned previously, the City has completed the annexation of a net 60 acres of developable land for industrial purposes and is providing assistance in the development of this land as a business park/center. It is expected to positively impact the local employment market, provide increase tax revenues, and revitalize the surrounding industrial area. The planning of this development is underway now with expected completion by 2008/2009. In addition, initial planning is also underway to annex 65 acres known as the Atkinson Lane area to be for housing expansion. This would be jointly developed with the County of Santa Cruz and the City.

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 increasing; for the current fiscal year, it averaged 5.06%. 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 2006/2007, 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 \$300,000, 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.

The City of Watsonville also provides a minimal level of post-retirement health care benefits for retirees and their dependents. As of the end of the current fiscal year, there were 20 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. New Governmental Accountant Standards Board accounting rules require disclosure of unfunded liabilities for these benefits beginning in fiscal year 2008/2009.

Additional information on the City of Watsonville's pension arrangements and postemployment benefits can be found in Notes V. – E/F, pages 82 to 84 in the notes to the financial statements.

Awards and Acknowledgements

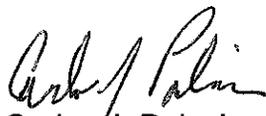
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watsonville, California for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2006. This was the seventh consecutive year that 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 six 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, Marisa Bermudez, Sandy Bolanos, Veronica Carrillo, Joseph Chavez, Lety Hernandez, Yvette Herrera, Letty Galvan, Christine McGrath, Diana Mello, Karina Murillo, 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
Juen 30, 2006

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, 2007

City Council:

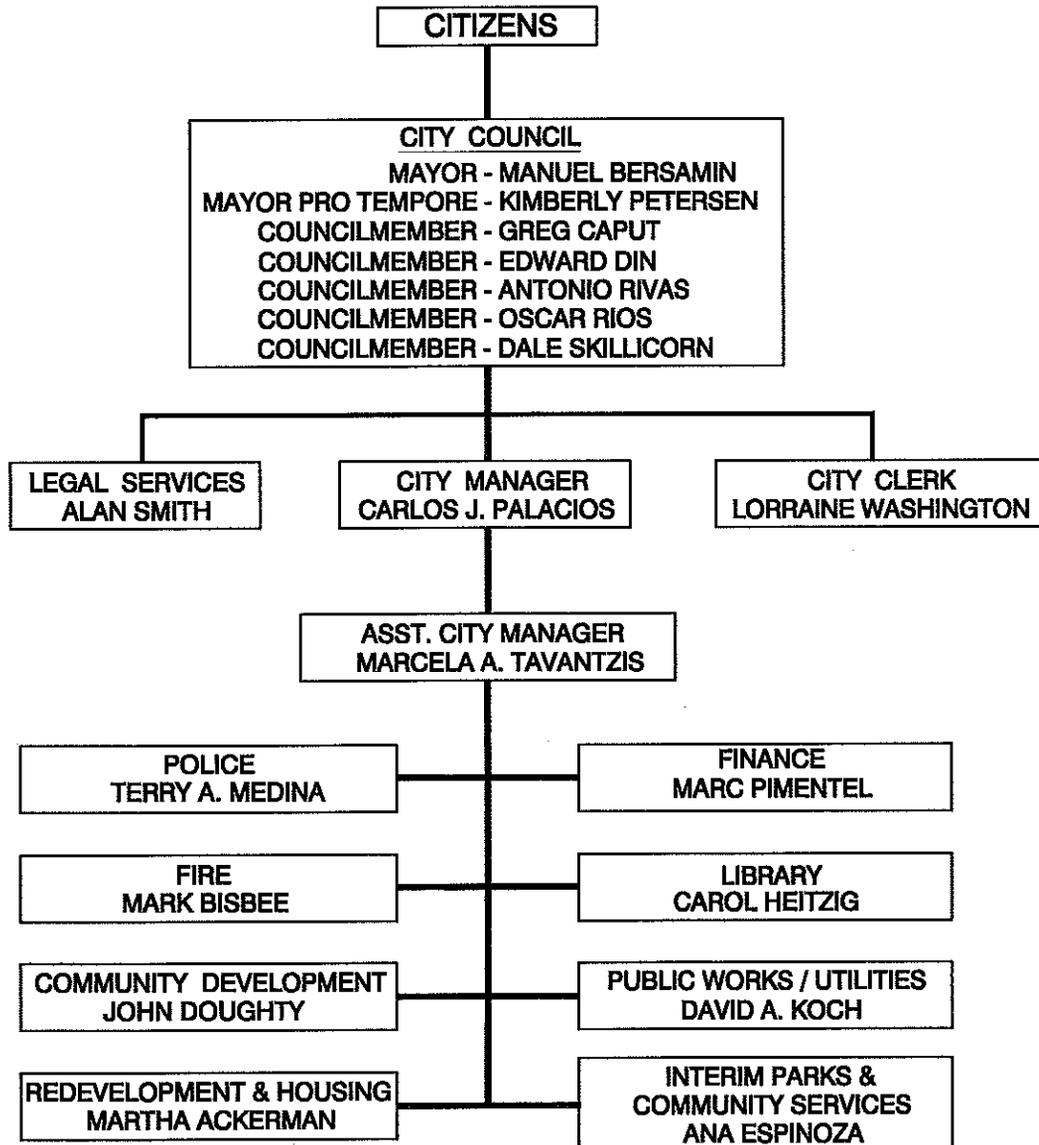
Mayor – Manuel Quintero Bersamin
Mayor Pro Tempore – Kimberely Petersen
Council Member – Greg Caput
Council Member – Edward Din
Council Member – Oscar Rios
Council Member – Antonio Rivas
Council Member – Dale Skillicorn

City Officials:

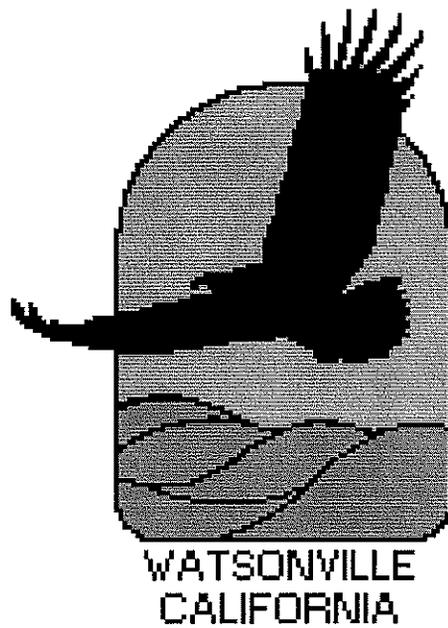
City Manager – Carlos J. Palacios
Assistant City Manager – Marcela Tavantzis
City Clerk – Lorraine Washington
Fire Chief – Mark Bisbee
Police Chief – Terry Medina
Public Works and Utilities Director – David A. Koch
Administrative Services Director – Marc Pimentel
Library Director – Carol Heitzig
Community Development Director – John Doughty
Interim Parks and Community Development Services Director – Ana Espinoza
Redevelopment and Housing Director – Martha Ackerman

WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE
FISCAL YEAR 2007

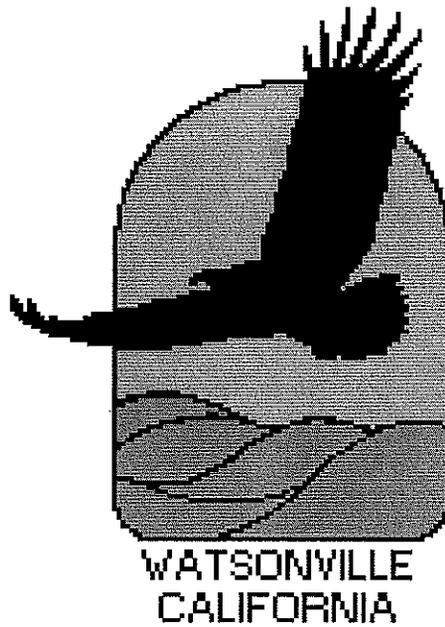


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Financial Section

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.

Consultant:

ROBERT M. MOSS (Retired C.P.A.)

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INDEPENDENT AUDITORS' REPORT

City Council of the City of Watsonville
Watsonville, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville (City), as of and for the fiscal year ended June 30, 2007, 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, 2007, 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 Grant Fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 11, 2007, on our consideration of the City of Watsonville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The introductory section and statistical section listed in the table of contents were not audited by us, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion thereon.

MOSS, LEVY AND HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 11, 2007

CITY OF WATSONVILLE, CALIFORNIA MANAGEMENT'S 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, 2007. 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 3 - 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 \$227,556. Of this amount, \$50,716 (unrestricted net assets) may be used to meet the government's obligations to citizens and creditors.
- The government's total net assets increased by \$48,766. Investment in capital assets, net of related debt increased by \$41,353, restricted funds increased by \$2,114 and unrestricted increased by \$5,299. The major reason for the increase in the investment in capital assets was the increase in construction in process for the construction of the parking garage structure and a new civic center, which should be completed in the 2007/08 fiscal year. The major increase in the restricted funds was the increase in work in process for the construction of the civic center structure.
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balances of \$26,832, a decrease of \$14,371 in comparison with the prior fiscal year restated balance. Approximately 29% of this amount, \$7,872 is in the special revenue funds (reserved) to be used for the civic center capital project. Another 33% of this amount, \$8,819 is available for spending at the government's discretion (unreserved - designated fund balances) within certain restrictions (such as \$4,496 for debt related costs; \$4,108 restricted for "Low Income" housing; and \$1,705 for gas tax 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-one 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 fifteen 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 86 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 105 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 \$227,556 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net assets (64%) 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, 2007
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Current and other assets	66,136	65,414	44,658	40,416	110,794	105,830
Capital assets	110,799	80,086	76,168	64,036	186,967	144,122
Total Assets	176,935	145,500	120,826	104,452	297,761	249,952
Long-term liabilities outstanding	31,639	33,260	18,529	20,042	50,168	53,302
Other Liabilities	14,355	13,759	5,661	4,081	20,016	17,840
Total Liabilities	45,994	47,019	24,190	24,123	70,184	71,142
Net Assets:						
Invested in capital assets, net of related debt	90,258	59,561	55,569	44,913	145,827	104,474
Restricted	28,461	26,448	2,572	2,471	31,033	28,919
Unrestricted	12,221	12,472	38,495	32,945	50,716	45,417
Total Net Assets	130,940	98,481	96,636	80,329	227,576	178,810

An additional portion of the City of Watsonville's net assets (14.%) 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 (\$50,716) 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, 2007
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	13,554	13,763	31,108	26,800	44,662	40,563
Operating grants and contributions	18,079	5,746	950	243	19,029	5,989
Capital grants and contributions	10,012	7,767	5,407	1,358	15,419	9,125
General Revenues						
Property taxes	21,140	20,459	-	-	21,140	20,459
Other taxes	15,607	15,248	-	-	15,607	15,248
Others	1,635	1,206	2,166	1,346	3,801	2,552
Total Revenues	80,027	64,189	39,631	29,747	119,658	93,936
Expenses:						
General government	11,031	10,825	-	-	11,031	10,825
Public safety	19,704	17,767	-	-	19,704	17,767
Housing	4,321	8,791	-	-	4,321	8,791
Streets	4,142	4,144	-	-	4,142	4,144
Culture and recreation	4,475	4,920	-	-	4,475	4,920
Interest on debt	3,505	3,924	-	-	3,505	3,924
Water	-	-	8,871	7,824	8,871	7,824
Sewer	-	-	8,440	7,857	8,440	7,857
Solid waste	-	-	8,259	7,158	8,259	7,158
Airport	-	-	3,671	2,491	3,671	2,491
Total Expenses	47,178	50,371	29,241	25,330	76,419	75,701
Change in net assets	32,849	13,818	10,390	4,417	43,239	18,235
Net assets - beginning	98,482	84,780	80,329	75,803	178,811	160,583
Prior year adjustments	(391)	(117)	5,917	109	5,526	(8)
Net assets - beginning restated	98,091	84,663	86,246	75,912	184,337	160,575
Net assets ending	130,940	98,481	96,636	80,329	227,576	178,810

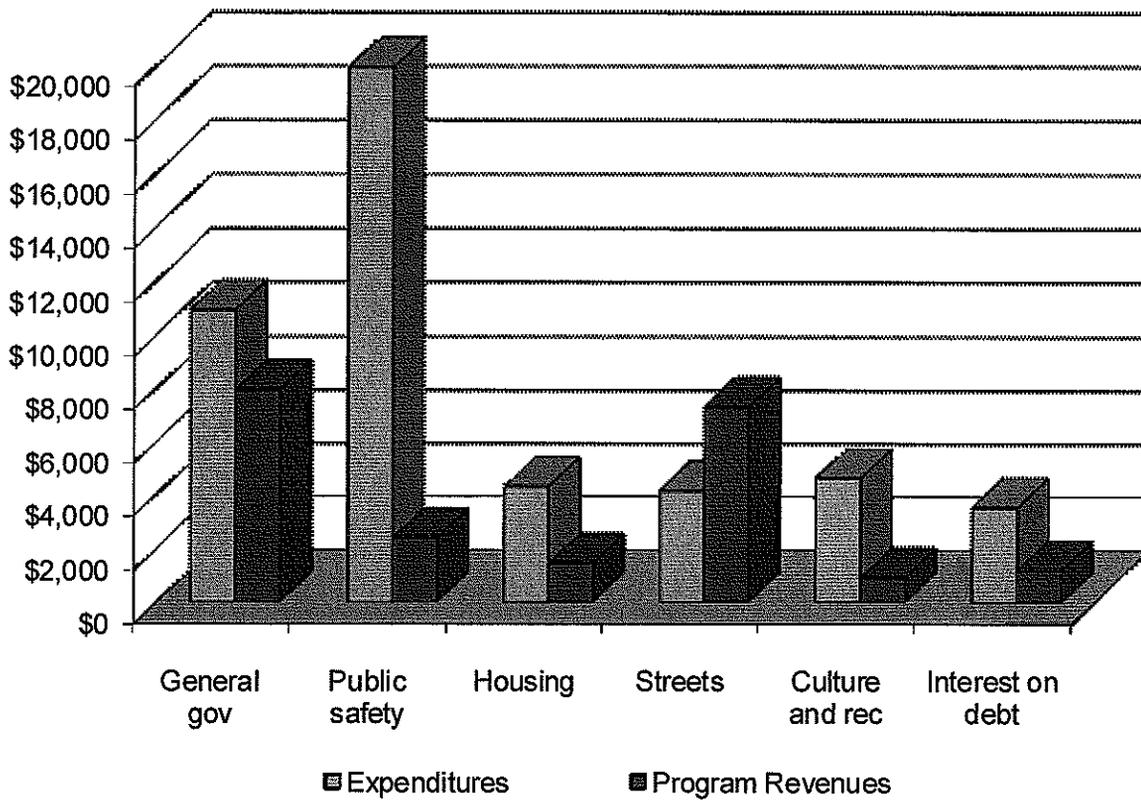
The government's net assets increased by \$48,766 during the current fiscal year. The government's governmental activities had an increase in net assets of \$32,459. The government's governmental investment in capital assets net of related debt had an increase of \$30,697. The major cause of the increase investment in capital assets net of related debt assets is the increase of work in process for the construction of a civic center and parking garage that should be completed in the 2007/08 fiscal year.

The government's business-type net assets increased by \$16,307. Approximately 99% 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.

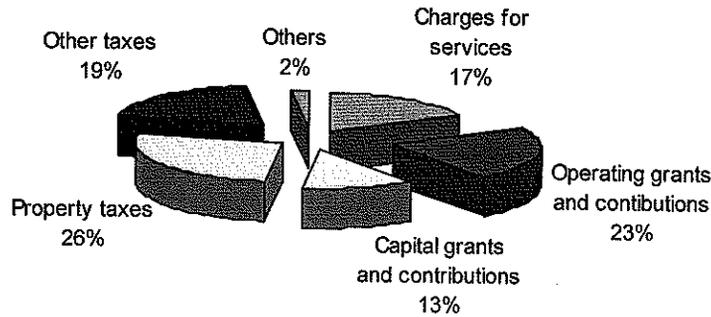
Governmental Activities. Governmental activities increased the City of Watsonville's net assets by \$32,850, thereby accounting for 76% of the total growth in the net assets of the City of Watsonville. Key elements of this increase are as follows:

- Operating grants increased by \$12,333 (315 %) during the fiscal year. The majority of this increase was within the HOME Fund, which recorded \$8 million in first time homebuyers loans and receipt of \$4 million in HOME program income. This program income is generated with the refinancing of home mortgages and paying off old City HOME loans.
- Capital grants increased by \$2,245 (22 %) during the fiscal year. The majority of this increase was within the Impact Fee Fund with the receipt of \$6.9 million in federal grant funds for the construction of the struve slough bride this fiscal year and \$4.7 in grant fund last fiscal year for various grant funded projects.
- Housing activities decreased by (\$4,470) (49%) during the fiscal year. The majority of this decrease was from the City's Civic Center project as the Redevelopment Agency advanced \$2.7 million in construction costs for the County of Santa Cruz Courts in the prior fiscal year.

Expenses and Program Revenues Governmental Activities



Revenues By Source Governmental Activities

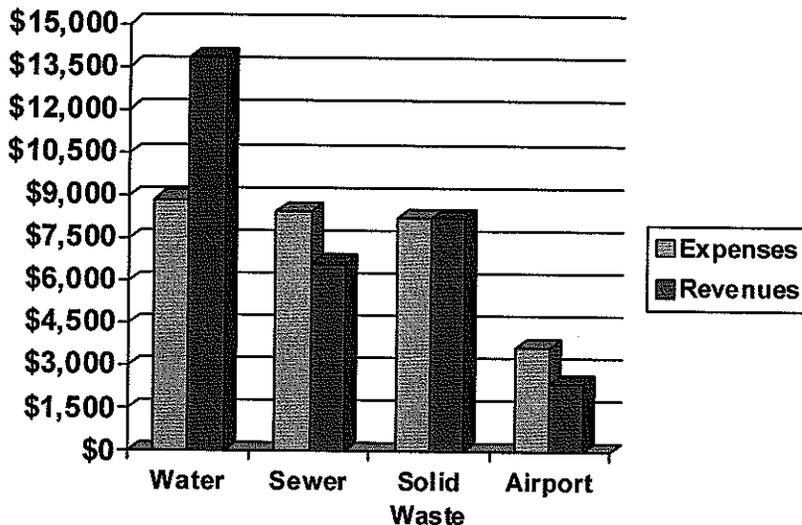


Expenses for public safety and general government increased during the fiscal year. Public safety expenses increased do to staffing increases and new operating grants. General government operations increased do to increased staffing costs related to salaries.

Expenses in housing, culture and recreation and interest on debt decreased during the last fiscal year. A part of the decrease for all of these departments was due to the City's attempt to hold down the general fund's expenses and freeze hiring's during the previous two fiscal years. The City's general fund was facing a repeal of its retirement tax that funds a portion of the general fund employees retirement tax costs. With this possibility facing the City until November 2006, the City held down costs throughout the 2006/07 fiscal year. The decrease in housing was the result of several housing projects not being started until the 2007/08 fiscal year.

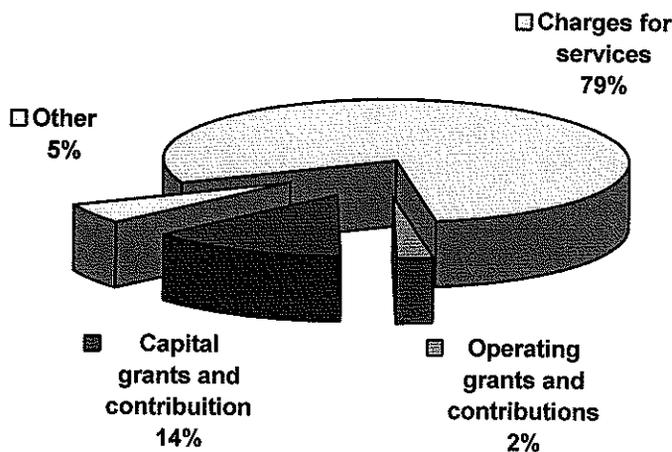
Business-type activities. Business-type activities increased the City of Watsonville's net assets by \$10,390, accounting for 24% of the total growth in the government's net assets. Key elements of this increase are discussed on the next page.

Expenses and Program Revenues Business-type Activities



- Charges for services for business-type activities increased by 25%. The Water Fund had the most significant increase in charges for services. This was due to the City selling future recycled water to Pajaro Valley Water Management Agency that will be produced by the new water recycling plant that is currently under construction. It is projected to be in full operation in the beginning of 2008.
- Airport's charges for services increased by \$348, due mainly to the increasing cost of fuel and passing that cost on to customers.
- Operating cost increases in expenses closely paralleled inflation and growth in the demand for services during the fiscal year.

Revenues by Source Business-type Activities



Financial Analysis of the City of Watsonville's Funds

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

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

As of the end of the current fiscal year, the City of Watsonville's governmental funds reported combined ending fund balances of \$26,832, a decrease of \$14,371 in comparison with the prior restated fund balances. A third of this total amount \$8,819 constitutes unreserved – designated/undesignated fund balance, which is available for spending at the government's

discretion. The largest portion of the fund balance is reserved for restricted assets, \$7,872. Most of the balance came from the issuance of library and redevelopment agency bonds for various capital projects projected to be completed in the near future. 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 \$2,358; 2) reserved by charter \$2,450; 3) reserved for insurance \$2,314; and 4) for a variety of other restricted purposes \$3,020.

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 19 percent of the same amount.

The fund balance of the City of Watsonville's General Fund increased by \$1,686 during the current fiscal year. Key factors in this increase are as follows:

- The General Fund total tax collection exceeded estimates by \$1,561 with Property Tax and Motor Vehicle experiencing the largest gains (\$668 and \$355 respectively).
- Revenue gains were offset by public safety excess spending over budget of \$965. Most of this was due to overtime in both police and fire as both departments were under staffed during the fiscal year.
- Capital project costs did not occur to the degree budgeted, leaving \$3,876 in costs to be carried over to the subsequent year and reappropriated.

The Impact Fees Fund has a negative fund balance of \$1,948, a decrease of \$9,267 for the fiscal year. The decrease was due to the timing of reimbursement of costs for grant construction projects during the fiscal year.

Low Income Housing Set Aside Fund has a fund balance of \$4,108, a decrease of \$515 for the fiscal year. The decrease was from an increase in net operating activities of \$71, and an increase in operating transfers out, to the debt service fund, of \$(586).

The Redevelopment and Housing Grants Fund has a negative balance of (\$1,365), an increase of \$702 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 \$825, an increase of \$27 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 \$3,671, an increase of \$113 during the fiscal year. The increase was due to an unexpected increase in tax increment revenue and a corresponding increase in interest income.

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	40,115	10,369
Sewer	48,681	(188)
Solid Waste	2,857	395
Airport	4,983	(187)

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 was a \$2,391 change from the original budget to the final amended budget during the current fiscal year. The increases were for new police, parks and recreation and fire grants and appropriation of additional capital improvement projects at the mid-year review. Taxes exceeded the budget by \$1,561. This excess revenue was due largely to increases in City assessed valuation of real property that increased property tax and a portion of the motor vehicle revenue. Capital outlay was \$3,876 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, 2007 was \$186,967 (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 23 percent (28 percent increase in governmental assets and 16 percent increase in business-type assets). Major capital asset events during the current fiscal year included the following:

- Continued construction of the core and shell 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. Construction of this project should be completed during the 2008 year.
- \$6.5 million costs towards the government's capital project fund 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 Watsonville Sough Bridge, and continued work on the Struve Slough Bridge; construction in progress as of the end of the current fiscal year has reached \$81,504.

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 60 to 63 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total debt outstanding of \$53,743. Of this amount, \$40,950 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds) and \$1,057 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 \$2,258, debt payable of \$167 and \$5,684 for capital leases. Business type activities have \$2,330 lease payable and landfill closure liability of \$2,677.

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 \$167.

The City of Watsonville issued Library Special Revenue Certificates of Participation during the 2003/04 fiscal year. Moody's Investors Services rates 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.

The Redevelopment Agency of the City of Watsonville issued 2004 Tax Allocations bonds during the 2003/04 fiscal year. Moody's Investors Services rates 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.

The revenue bonds for the business-type activities are insured by MBIA Insurance Corporation (Insurer). Moody's Investors Services rates the claims paying ability of the insurer as Aaa and Standard and Poor's Rating Service and Fitch IBCA, Inc. both rate the claims paying ability of the Insurer as AAA.

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 \$118,487, which is significantly in excess of the City of Watsonville's outstanding debt subject to this limit.

Additional information on the City of Watsonville's long-term debt can be found in Note 4 on pages 65 to 77 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 projected development of 500 new homes in the next few fiscal years.
- Limited investment opportunities for idle cash reserves.

With all the above factors considered, the City of Watsonville increased it's general fund operating budget for the next fiscal year, with the increase directed as public safety departments staffing.

The City's Water, Sewer, and Solid Waste Funds service fees were increase by the Consumer Price

Index (CPI) for the San Francisco-Oakland-San Jose April to April change, or 3.3 percent for the 2007-08 fiscal year.

All of these factors were taken into consideration during the preparation of the City of Watsonville's biennial budget for the fiscal years 2007-08 and 2008-09.

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, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
ASSETS			
Cash and investments	14,335,066	27,230,646	41,565,712
Cash and investments with fiscal agent	2,756,475	2,572,006	5,328,481
Restricted cash and investments	9,811,286	-	9,811,286
Receivables:			
Interest	325,326	336,411	661,737
Taxes	3,383,398	-	3,383,398
Assessments	1,057,000	-	1,057,000
Accounts	1,104,783	3,105,833	4,210,616
Intergovernmental	8,782,637	4,393,290	13,175,927
Internal balances	2,520,259	(2,520,259)	-
Loans receivable	19,144,415	9,302,122	28,446,537
Inventories	41,868	226,323	268,191
Deposits	62,000	-	62,000
Prepaid Items	-	11,116	11,116
Land held for resale	2,811,673	-	2,811,673
Capital assets (net of depreciation, where applicable)			
Land	15,150,614	23,182,110	38,332,724
Buildings and Improvements	17,423,557	11,631,205	29,054,762
Machinery	5,413,255	6,443,830	11,857,085
Infrastructure	5,675,861	20,542,638	26,218,499
Construction in progress	67,135,231	14,368,706	81,503,937
Total Assets	176,934,704	120,825,977	297,760,681

See accompanying notes to financial statements

Continued

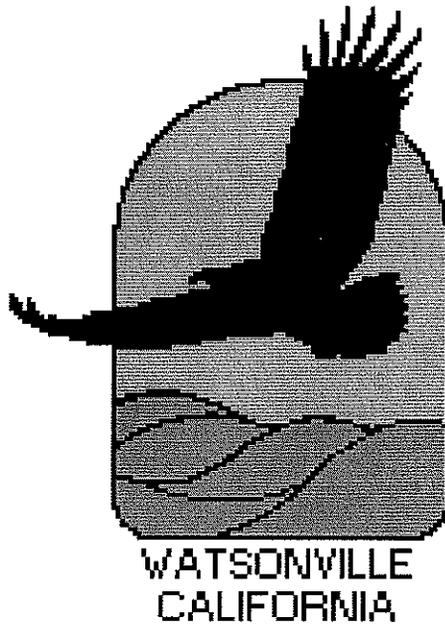
CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
LIABILITIES			
Accounts payable	4,913,066	2,378,936	7,292,002
Accrued personnel costs	2,363,561	1,003,494	3,367,055
Insurance claims payable	3,501,486	-	3,501,486
Interest payable	473,680	100,001	573,681
Retentions payable	163,513	330,580	494,093
Unearned revenue	142,356	-	142,356
Arbitrage rebate	-	77,536	77,536
Deposits	995,265	16,382	1,011,647
Noncurrent liabilities			
Due within one year	1,802,690	1,754,776	3,557,466
Due in more than one year (Net of capitalized discounts and issue costs)	<u>31,638,638</u>	<u>18,528,597</u>	<u>50,167,235</u>
Total Liabilities	<u>45,994,255</u>	<u>24,190,302</u>	<u>70,184,557</u>
NET ASSETS			
Investment in capital assets, net of related debt	90,258,367	55,568,644	145,827,011
Restricted for:			
Debt service	4,495,716	2,572,006	7,067,722
Special purposes	23,965,659	-	23,965,659
Unrestricted	<u>12,220,707</u>	<u>38,495,025</u>	<u>50,715,732</u>
Total Net Assets	<u>130,940,449</u>	<u>96,635,675</u>	<u>227,576,124</u>

See accompanying notes to financial statements

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CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs Primary Government:	Program Revenues			Primary Government			
	Expenses \$	Charges for Services \$	Operating Grants and Contributions \$	Capital Grants and Contributions \$	Governmental Activities \$	Business-type Activities \$	Total \$
Governmental activities:							
General government	11,030,511	5,687,269	42,647	-	(5,300,595)	-	(5,300,595)
Public safety	19,703,796	1,768,706	593,185	253,224	(17,088,681)	-	(17,088,681)
Housing	4,321,498	2,234,251	12,730,417	2,917,175	13,560,345	-	13,560,345
Streets	4,142,433	3,006,140	3,932,166	6,796,747	9,592,620	-	9,592,620
Culture and recreation	4,475,243	857,689	780,669	44,764	(2,792,121)	-	(2,792,121)
Interest on long term debt	3,504,623	-	-	-	(3,504,623)	-	(3,504,623)
Total government activities	47,178,104	13,554,055	18,079,084	10,011,910	(5,533,055)	-	(5,533,055)
Business-type activities							
Water	8,871,019	13,874,920	-	4,395,484	-	9,399,385	9,399,385
Sewer	8,439,937	6,624,452	721,792	122,722	-	(970,971)	(970,971)
Solid Waste	8,259,145	8,228,487	13,309	-	-	(17,349)	(17,349)
Airport	3,670,838	2,379,994	214,748	889,143	-	(186,953)	(186,953)
Total business-type activities	29,240,939	31,107,853	949,849	5,407,349	-	8,224,112	8,224,112
Total primary government	76,419,043	44,661,908	19,028,933	15,419,259	(5,533,055)	8,224,112	2,691,057
General revenues:							
Property taxes					21,140,367	-	21,140,367
Sales taxes					10,202,003	-	10,202,003
Franchise taxes					182,622	-	182,622
Motor/vehicle taxes					1,251,465	-	1,251,465
Utility users taxes					2,965,804	-	2,965,804
Other taxes					1,005,770	-	1,005,770
Unrestricted investment earnings					1,634,833	2,165,279	3,800,112
Total general revenues					38,382,864	2,165,279	40,548,143
Change in net assets					32,849,809	10,389,391	43,239,200
Net assets - beginning					98,481,508	80,328,906	178,810,414
Prior period adjustments					(390,868)	5,917,378	5,526,510
Net assets - beginning, restated					98,090,640	86,246,284	184,336,924
Net assets - ending					130,940,449	96,635,675	227,576,124

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2007

	SPECIAL REVENUE FUNDS					DEBT SERVICE FUNDS			TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	LOW INCOME HOUSING SET ASIDE	REDEVELOPMENT AND HOUSING GRANTS	GENERAL	REDEVELOPMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS	
ASSETS:									
Cash and investments	2,171,811	651,363	1,393,604	-	46,065	1,464,883	7,058,813	12,786,539	
Cash and investments with fiscal agent	-	-	5,108	-	772,101	1,979,266	-	2,756,475	
Restricted cash and investments	-	-	-	-	-	-	9,811,286	9,811,286	
Receivables:									
Interest	-	-	-	-	-	-	9,350	325,326	
Taxes	2,425,955	-	315,976	-	6,819	313,986	636,638	3,383,398	
Deferred assessments	-	-	-	-	1,057,000	-	-	1,057,000	
Accounts	128,694	-	-	768,675	-	-	27,751	925,120	
Intergovernmental	206,974	8,385,663	-	-	-	-	190,000	8,782,637	
Due from other funds	8,405,690	-	-	-	-	-	-	8,405,690	
Advances receivable	26,556	106,665	250,000	-	-	-	139,485	522,706	
Loans receivable	3,750	-	5,434,850	11,066,863	-	-	2,638,952	19,144,415	
Inventories	41,868	-	-	-	-	-	-	41,868	
Land held for resale	-	-	2,811,673	-	-	-	-	2,811,673	
Total Assets	13,411,298	9,143,691	10,211,211	11,835,538	1,881,985	3,758,135	20,512,275	70,754,133	
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts payable	3,051,856	1,267,752	95,987	81,740	-	87,404	129,254	4,713,993	
Accrued personnel costs	2,152,919	822	13,130	9,643	-	-	38,327	2,215,041	
Retentions payable	-	83,622	66,852	-	-	-	13,039	163,513	
Due to other funds	-	1,354,200	-	1,728,633	-	-	1,897,245	4,980,078	
Advances payable	-	-	176,207	-	-	-	1,001,852	1,178,059	
Deferred revenue	185,953	8,385,663	5,750,826	11,315,642	1,057,000	-	2,838,302	29,533,386	
Unearned revenue	75,395	-	-	64,446	-	-	2,515	142,356	
Deposits	961,451	-	471	-	-	-	33,343	995,265	
Total Liabilities	6,427,574	11,092,059	6,103,473	13,200,304	1,057,000	87,404	5,953,877	43,921,691	
Fund Balances:									
Reserved for encumbrances	1,202,149	-	280,188	-	-	-	875,347	2,357,684	
Reserved for insurance	2,314,155	-	-	-	-	-	-	2,314,155	
Reserved - charter	2,450,000	-	-	-	-	-	-	2,450,000	
Reserved for inventories	41,868	-	-	-	-	-	-	41,868	
Reserved for advances	26,556	-	-	-	-	-	139,485	166,041	
Reserved for land held for resale	-	-	2,811,673	-	-	-	-	2,811,673	
Reserved for restricted assets	-	-	-	-	-	-	7,871,677	7,871,677	
Unreserved - designated for debt service	-	-	-	-	824,985	-	-	4,495,716	
Unreserved - designated for subsequent years expenditures:									
Unreserved - undesignated	948,996	-	-	-	-	-	-	948,996	
special revenue funds	-	(1,948,368)	1,015,877	(1,364,766)	-	-	5,671,889	3,374,632	
Total Fund Balances	6,983,724	(1,948,368)	4,107,738	(1,364,766)	824,985	3,670,731	14,558,398	26,832,442	
Total Liabilities and Fund Balances	13,411,298	9,143,691	10,211,211	11,835,538	1,881,985	3,758,135	20,512,275	70,754,133	

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 30,2007

	<u>\$</u>
Amounts Reported For Governmental Activities To The Statement Of Net Assets Are Different Because:	
Fund Balances Of Governmental Funds.	26,832,442
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	151,523,141
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(40,724,623)
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.	(2,308,889)
Loans, Intergovernmental And Assessment Receivables Recorded As Deferred Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities.	29,533,386
Long-term Debt Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(34,012,297)
Bond Issuance Costs are Expensed In Year Of Issuance Therefore Not Reported In Governmental Funds.	570,969
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(473,680)
Net Assets Of Governmental Funds.	<u><u>130,940,449</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, 2007

	SPECIAL REVENUE FUNDS										DEBT SERVICE FUNDS			OTHER GOVERNMENTAL FUNDS		TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	LOW INCOME HOUSING SET ASIDE		REDEVELOPMENT AND HOUSING GRANTS		GENERAL	REDEVELOPMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS					
			\$	\$	\$	\$										\$
REVENUES:																
Taxes	21,123,274	-	1,715,639	-	-	-	6,896,290	-	7,012,828	-	36,748,031					
Licenses, permits, and fees	4,483,610	679,341	-	-	-	-	-	-	1,485,677	-	6,648,628					
Intergovernmental	1,564,342	3,448,589	-	4,912,279	-	-	-	-	3,245,122	-	13,170,332					
Charges for services	2,083,146	-	-	-	-	-	-	-	-	-	2,083,146					
Fines	465,887	-	-	-	-	-	-	-	-	-	465,887					
Interest	1,634,833	440,442	365,700	2,511	-	-	291,767	-	762,063	-	3,534,138					
Special assessment	-	-	40,380	-	-	-	-	-	-	-	153,164					
Miscellaneous	1,994,626	-	40,380	-	-	-	-	-	-	-	2,219,224					
Total revenues	33,349,718	4,568,372	2,121,719	4,914,790	189,986	7,188,057	-	184,218	12,689,908	-	65,022,550					
EXPENDITURES:																
Current:																
General government	6,900,430	-	-	188,326	-	-	-	-	3,413,368	-	10,502,124					
Public safety	19,275,027	-	-	-	-	-	-	-	-	-	19,275,027					
Housing	-	-	951,777	-	-	-	-	-	247,986	-	4,370,155					
Streets	3,883,246	-	-	3,170,392	-	-	-	-	-	-	3,883,246					
Culture and recreation	4,033,096	-	-	-	-	-	-	-	-	-	4,033,096					
Capital outlay	2,372,274	14,015,203	1,099,262	454,675	-	-	-	-	14,310,498	-	32,251,912					
Debt service:																
Principal	-	-	-	-	-	1,057,676	-	-	-	-	1,736,512					
Interest and fiscal charges	-	-	-	-	-	402,803	-	-	-	-	3,520,876					
Total expenditures	36,464,073	14,015,203	2,051,039	3,813,393	1,460,479	3,796,909	-	17,971,852	17,971,852	-	79,572,948					
Excess (deficiency) of revenues over (under) expenditures	(3,114,355)	(9,446,831)	70,680	1,101,397	(1,270,493)	3,391,148	-	(5,281,944)	(5,281,944)	-	(14,550,398)					
OTHER FINANCING SOURCES (USES)																
Debt proceeds	-	179,792	-	-	-	-	-	-	-	-	179,792					
Transfers in	4,800,025	-	-	(399,715)	1,299,159	586,093	-	-	3,864,670	-	10,549,947					
Transfers out	-	-	(586,093)	(399,715)	-	(3,894,670)	-	-	(5,699,469)	-	(10,549,947)					
Total other financing sources (uses)	4,800,025	179,792	(586,093)	(399,715)	1,299,159	(3,278,577)	-	-	179,792	-	179,792					
Net change in fund balances	1,685,670	(9,267,039)	(515,413)	701,682	28,666	112,571	-	(7,116,743)	(7,116,743)	-	(14,370,806)					
Fund balances, July 1	6,068,549	7,141,658	4,623,151	(2,066,448)	796,319	(34,868)	-	267,482	21,407,659	-	41,593,916					
Prior period adjustments	(800,495)	177,013	-	-	-	(34,868)	-	-	267,482	-	(390,868)					
Fund balances, July 1, as restated	5,298,054	7,318,671	4,623,151	(2,066,448)	796,319	3,556,160	-	21,675,141	21,675,141	-	41,203,048					
Fund balances, June 30	6,983,724	(1,948,368)	4,107,738	(1,364,766)	824,985	3,670,731	-	14,558,398	14,558,398	-	26,832,442					

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, 2007

	<u>\$</u>
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Net Change In Fund Balance - Total Governmental Funds	(14,370,606)
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 Disbursed In The Current Year.	30,906,942
This is the Amount of the Proceeds from the Sale of Fixed Assets	(194,089)
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	15,005,363
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.	1,736,512
This Amount is the Bonds Issuance Costs	(34,489)
This Amount is new Capital Lease	(164,116)
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	(86,450)
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>50,742</u>
Change In Net Assets Of Governmental Funds.	<u><u>32,849,809</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, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Taxes	19,561,889	19,561,889	21,123,274	1,561,385
Licenses, permits, and fees	3,795,904	3,890,891	4,483,610	592,719
Intergovernmental	1,547,905	1,547,905	1,564,342	16,437
Charges for services	2,056,746	2,056,746	2,083,146	26,400
Fines	444,600	444,600	465,887	21,287
Interest	1,329,871	1,329,871	1,634,833	304,962
Miscellaneous	549,914	549,914	1,994,626	1,444,712
Total revenues	29,286,829	29,381,816	33,349,718	3,967,902
EXPENDITURES:				
Current:				
General government	6,896,562	6,896,562	6,900,430	(3,868)
Public safety	17,581,766	18,309,939	19,275,027	(965,088)
Streets	3,497,362	3,553,554	3,883,246	(329,692)
Culture and recreation	3,832,742	4,314,685	4,033,096	281,589
Capital outlay	5,028,963	6,248,647	2,372,274	3,876,373
Total expenditures	36,837,395	39,323,387	36,464,073	2,859,314
Excess (deficiency) of revenues over (under) expenditures	(7,550,566)	(9,941,571)	(3,114,355)	6,827,216
OTHER FINANCING SOURCES (USES)				
Transfers in	3,936,825	3,936,825	4,800,025	863,200
Total other financing sources (uses)	3,936,825	3,936,825	4,800,025	863,200
Net change in fund balance	(3,613,741)	(6,004,746)	1,685,670	7,690,416
Fund balance, July 1	6,098,549	6,098,549	6,098,549	-
Prior period adjustments	-	-	(800,495)	(800,495)
Fund balance July 1, as restated	6,098,549	6,098,549	5,298,054	(800,495)
Fund balance, June 30	2,484,808	93,803	6,983,724	6,889,921

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, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Licenses, permits, and fees	1,066,000	1,066,000	679,341	(386,659)
Intergovernmental	3,825,590	3,825,590	3,448,589	(377,001)
Interest	110,000	110,000	440,442	330,442
Total revenues	5,001,590	5,001,590	4,568,372	(433,218)
EXPENDITURES:				
Capital outlay	21,377,060	22,519,008	14,015,203	8,503,805
Total expenditures	21,377,060	22,519,008	14,015,203	8,503,805
Excess (deficiency) of revenues over (under) expenditures	(16,375,470)	(17,517,418)	(9,446,831)	8,070,587
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	179,792	179,792
Total other financing sources (uses)	-	-	179,792	179,792
Net change in fund balance	(16,375,470)	(17,517,418)	(9,267,039)	8,250,379
Fund balance, July 1	7,141,658	7,141,658	7,141,658	-
Prior period adjustments	-	-	177,013	177,013
Fund balance July 1, as restated	7,141,658	7,141,658	7,318,671	177,013
Fund balance, June 30	(9,233,812)	(10,375,760)	(1,948,368)	8,427,392

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, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$		
REVENUES:				
Taxes	1,129,625	1,129,625	1,715,639	586,014
Interest	50,000	50,000	365,700	315,700
Miscellaneous	65,000	65,000	40,380	(24,620)
Total revenues	<u>1,244,625</u>	<u>1,244,625</u>	<u>2,121,719</u>	<u>877,094</u>
EXPENDITURES:				
Current:				
Housing	352,737	352,737	951,777	(599,040)
Capital outlay	6,051,295	6,451,295	1,099,262	5,352,033
Total expenditures	<u>6,404,032</u>	<u>6,804,032</u>	<u>2,051,039</u>	<u>4,752,993</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,159,407)</u>	<u>(5,559,407)</u>	<u>70,680</u>	<u>5,630,087</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(598,877)	(598,877)	(586,093)	12,784
Total other financing sources (uses)	<u>(598,877)</u>	<u>(598,877)</u>	<u>(586,093)</u>	<u>12,784</u>
Net change in fund balances	(5,758,284)	(6,158,284)	(515,413)	5,642,871
Fund balance, July 1	<u>4,623,151</u>	<u>4,623,151</u>	<u>4,623,151</u>	<u>-</u>
Fund balance, June 30	<u>(1,135,133)</u>	<u>(1,535,133)</u>	<u>4,107,738</u>	<u>5,642,871</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, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES:	\$	\$	\$	\$
Intergovernmental Interest	2,251,305	2,251,305	4,912,279	2,660,974
	-	-	2,511	2,511
Total revenues	<u>2,251,305</u>	<u>2,251,305</u>	<u>4,914,790</u>	<u>2,663,485</u>
EXPENDITURES:				
Current:				
General government	262,225	262,225	188,326	73,899
Housing	4,209,555	5,088,248	3,170,392	1,917,856
Capital outlay	642,157	642,157	454,675	187,482
Total expenditures	<u>5,113,937</u>	<u>5,992,630</u>	<u>3,813,393</u>	<u>2,179,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,862,632)</u>	<u>(3,741,325)</u>	<u>1,101,397</u>	<u>4,842,722</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(419,355)</u>	<u>(419,355)</u>	<u>(399,715)</u>	<u>19,640</u>
Total other financing sources (uses)	<u>(419,355)</u>	<u>(419,355)</u>	<u>(399,715)</u>	<u>19,640</u>
Net change in fund balances	(3,281,987)	(4,160,680)	701,682	4,862,362
Fund balance, July 1	<u>(2,066,448)</u>	<u>(2,066,448)</u>	<u>(2,066,448)</u>	<u>-</u>
Fund balance, June 30	<u><u>(5,348,435)</u></u>	<u><u>(6,227,128)</u></u>	<u><u>(1,364,766)</u></u>	<u><u>4,862,362</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2007

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	
	\$	\$	\$	\$	\$	\$
ASSETS						
Current Assets:						
Cash and investments	7,797,320	14,558,547	4,873,629	1,150	27,230,646	1,548,527
Cash and investments with fiscal agent	829,178	865,012	877,816	-	2,572,006	-
Receivables:						
Interest	317,361	6,406	12,644	-	336,411	-
Accounts	1,202,134	859,807	841,285	202,607	3,105,833	179,663
Loans	-	235,492	-	-	235,492	-
Due from other funds	-	2,037,722	-	-	2,037,722	-
Due from other governments	4,393,290	-	-	-	4,393,290	-
Deposits	-	-	-	-	-	62,000
Prepaid items	-	-	-	11,116	11,116	-
Inventories	146,376	-	763	79,184	226,323	-
Total Current Assets	14,685,659	18,562,986	6,606,137	294,057	40,148,839	1,790,190
Noncurrent Assets						
Advances receivable	905,353	-	-	-	905,353	-
Loan receivable	7,030,706	2,035,924	-	-	9,066,630	-
Capital assets:						
Land and improvements	5,204,242	8,943,006	1,442,647	7,592,215	23,182,110	-
Buildings	3,452,577	15,380,850	3,889,439	8,791,900	31,514,766	-
Machinery and equipment	5,592,651	2,091,094	4,103,846	275,887	12,063,478	-
Infrastructure	12,872,824	38,024,887	-	-	50,897,711	-
Construction in progress	12,570,965	476,958	-	1,320,783	14,368,706	-
Accumulated depreciation	(12,797,965)	(30,975,477)	(4,710,061)	(7,374,779)	(55,858,282)	-
Total Capital Assets (Net of accumulated depreciation)	26,895,294	33,941,318	4,725,871	10,606,006	76,168,489	-
Total Noncurrent Assets	34,831,353	35,977,242	4,725,871	10,606,006	86,140,472	-
Total Assets	49,517,012	54,540,228	11,332,008	10,900,063	126,289,311	1,790,190
LIABILITIES						
Current Liabilities:						
Accounts payable	1,798,585	256,862	227,150	96,339	2,378,936	199,073
Accrued personnel costs	261,108	383,330	294,045	65,011	1,003,494	148,520
Insurance claims payable	-	-	-	-	-	3,501,486
Interest payable	31,970	33,092	34,939	-	100,001	-
Retentions payable	308,906	21,674	-	-	330,580	-
Due to other funds	2,037,722	-	-	3,425,612	5,463,334	-
Arbitrage rebate	28,370	25,852	23,314	-	77,536	-
Customer deposits	16,382	-	-	-	16,382	-
Current maturities of long term debt:						
Revenue bonds	470,000	495,000	495,000	-	1,460,000	-
Lease payable	-	-	-	294,776	294,776	-
Total Current Liabilities	4,953,043	1,215,810	1,074,448	3,881,738	11,125,039	3,849,079
Noncurrent Liabilities:						
Advance payable	-	-	-	-	-	250,000
Liability for landfill closure	-	-	2,676,180	-	2,676,180	-
Lease payable	-	-	-	2,035,717	2,035,717	-
Revenue bonds payable (Net of capitalized discounts and issue costs)	4,448,637	4,643,386	4,724,677	-	13,816,700	-
Total Noncurrent Liabilities	4,448,637	4,643,386	7,400,857	2,035,717	18,528,597	250,000
Total Liabilities	9,401,680	5,859,196	8,475,305	5,917,455	29,653,636	4,099,079
Net Assets						
Investment in capital assets (Net of related debt)	21,147,479	27,937,920	(1,792,268)	8,275,513	55,568,644	-
Restricted for debt service	829,178	865,012	877,816	-	2,572,006	-
Unrestricted	18,138,675	19,978,100	3,771,155	(3,292,905)	38,495,025	(2,308,889)
Total Net Assets	40,115,332	48,681,032	2,856,703	4,982,608	96,635,675	(2,308,889)

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, 2007

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	TOTALS	
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES:						
Charges for services	7,534,162	6,624,452	8,228,487	2,379,994	24,767,095	5,929,666
Recycle water revenue	6,340,758	-	-	-	6,340,758	-
Total Operating Revenue	13,874,920	6,624,452	8,228,487	2,379,994	31,107,853	5,929,666
OPERATING EXPENSES:						
Costs of sales and services	6,509,783	6,438,844	6,758,000	3,124,463	22,831,090	6,016,116
Depreciation	640,625	1,558,113	708,778	217,977	3,125,493	-
Total Operating Expenses	7,150,408	7,996,957	7,466,778	3,342,440	25,956,583	6,016,116
Operating Income (Loss)	6,724,512	(1,372,505)	761,709	(962,446)	5,151,270	(86,450)
NONOPERATING REVENUES (EXPENSES)						
Lease revenue	-	-	-	214,748	214,748	-
Grant revenue	4,141,077	721,792	13,309	889,143	5,765,321	-
Interest revenue	970,068	782,581	412,630	-	2,165,279	-
Interest expense	(217,169)	(280,131)	(348,084)	(328,398)	(1,173,782)	-
Arbitrage	(6,790)	(6,892)	(6,032)	-	(19,714)	-
Miscellaneous expenses	(1,436,042)	(94,065)	(310,556)	-	(1,840,663)	-
Landfill usage	-	-	(84,707)	-	(84,707)	-
Bond issuance costs	(60,610)	(61,892)	(42,988)	-	(165,490)	-
Total Nonoperating Revenues (expenses)	3,390,534	1,061,393	(366,428)	775,493	4,860,992	-
Income Before Contributions						
Capital contributions - Connection fees	254,407	122,722	-	-	377,129	-
Changes in Net Assets	10,369,453	(188,390)	395,281	(186,953)	10,389,391	(86,450)
Total Net Assets - Beginning	23,739,994	48,957,929	2,461,422	5,169,561	80,328,906	(2,222,439)
Prior period adjustments	6,005,885	(88,507)	-	-	5,917,378	-
Total Net Assets - Beginning, as restated	29,745,879	48,869,422	2,461,422	5,169,561	86,246,284	(2,222,439)
Total Net Assets - Ending	40,115,332	48,681,032	2,856,703	4,982,608	96,635,675	(2,308,889)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds				TOTALS	Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT		
	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	8,595,892	4,820,339	8,116,440	2,192,542	23,725,213	-
Receipts from interfund services provided	730,354	2,068,822	195,720	153,250	3,148,146	5,937,191
Payments to suppliers	2,723,534	(1,887,805)	(3,249,936)	(1,690,323)	(4,104,530)	(5,137,845)
Payments to employees	(2,534,023)	(3,136,483)	(2,487,235)	(485,310)	(8,643,051)	-
Payment for interfund services used	(346,935)	(1,377,080)	(906,338)	(4,000)	(2,634,353)	-
Net cash provided by operating activities	<u>9,168,822</u>	<u>487,793</u>	<u>1,668,651</u>	<u>166,159</u>	<u>11,491,425</u>	<u>799,346</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(11,625,312)	(1,110,789)	(1,110,604)	(660,391)	(14,507,096)	-
Non operating expenses	(1,436,042)	(182,572)	(310,556)	-	(1,929,170)	-
Connection fees	254,407	122,722	-	-	377,129	-
Grant revenue	-	-	13,309	889,143	902,452	-
Principal paid on long term debt	(450,000)	(480,000)	(470,000)	(280,411)	(1,680,411)	-
Interest paid on long term debt	(219,664)	(282,792)	(350,895)	(328,398)	(1,181,749)	-
Net cash provided (used) by capital and related financing activities	<u>(13,476,611)</u>	<u>(1,933,431)</u>	<u>(2,228,746)</u>	<u>(380,057)</u>	<u>(18,018,845)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Lease revenue	-	-	-	214,748	214,748	-
Interest received	652,707	749,711	399,986	-	1,802,404	-
Net cash provided (used) by investment activities	<u>652,707</u>	<u>749,711</u>	<u>399,986</u>	<u>214,748</u>	<u>1,802,404</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(3,655,082)</u>	<u>(695,927)</u>	<u>(160,109)</u>	<u>850</u>	<u>(4,725,016)</u>	<u>799,346</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,281,580</u>	<u>15,371,230</u>	<u>5,911,554</u>	<u>300</u>	<u>33,564,664</u>	<u>749,181</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>8,626,498</u>	<u>14,675,303</u>	<u>5,751,445</u>	<u>1,150</u>	<u>28,839,648</u>	<u>1,548,527</u>
Reconciliation of Statement of Net Assets:						
Cash and investments	7,797,320	14,558,547	4,873,629	1,150	27,230,646	1,548,527
Cash and investments with fiscal agent	829,178	865,012	877,816	-	2,572,006	-
	<u>8,626,498</u>	<u>15,423,559</u>	<u>5,751,445</u>	<u>1,150</u>	<u>29,802,652</u>	<u>1,548,527</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income	6,724,512	(1,372,505)	761,709	(962,446)	5,151,270	(86,450)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	640,625	1,558,113	708,778	217,977	3,125,493	7,525
(Increase) decrease in receivables	365,274	66,432	83,673	(34,202)	481,177	-
(Increase) decrease in inventories	53,095	-	(191)	4,103	57,007	-
(Increase) decrease in loans receivable	41,333	198,277	-	-	239,610	-
(Increase) decrease in due from other governments	-	-	-	475,161	475,161	-
(Increase) decrease in prepaid expenses	-	-	-	(11,116)	(11,116)	-
Increase (decrease) in accounts payable	1,107,529	115,679	98,991	32,028	1,354,227	(44,529)
Increase (decrease) in retentions payable	274,950	(163,407)	-	(48,306)	63,237	-
Increase (decrease) in claims payable	-	-	-	-	-	650,460
Increase (decrease) in accrued personnel costs	(43,750)	85,204	15,691	14,434	71,579	148,520
Increase (decrease) in customer deposits	5,254	-	-	-	5,254	-
Increase (decrease) in due to other funds	-	-	-	-	-	250,000
Increase (decrease) in due to other funds	-	-	-	478,526	478,526	(126,180)
Total adjustments	<u>2,444,310</u>	<u>1,860,298</u>	<u>906,942</u>	<u>1,128,605</u>	<u>6,340,155</u>	<u>885,796</u>
Net cash provided by operating activities	<u>9,168,822</u>	<u>487,793</u>	<u>1,668,651</u>	<u>166,159</u>	<u>11,491,425</u>	<u>799,346</u>
NONCASH INVESTING ACTIVITIES:						
Landfill postclosure liability amortization	-	-	\$144,627	-	\$144,627	-
Landfill usage	-	-	\$68,747	-	\$68,747	-
Capitalized discounts and issue costs	\$60,610	\$61,892	\$42,988	-	\$165,490	-

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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
215 Union 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 segment 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 revenues.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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, 2007 (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 a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

- Securities of the US Government, or its agencies

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (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 Treasurer's 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

Activity 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, 2007 (Continued)

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

4. Restricted assets

Restricted cash represents assets either held by bond trustees or the City, which are governed by a trust indenture specifying their uses. Restricted cash balances at June 30, 2007 relate to various debt issuances or cash legally restricted for specific purposes.

5. 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.

6. 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

7. 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 their 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.

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.

8. 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.

9. 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

10. 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.

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. One element of that reconciliation explains that "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 this (\$34,030,973) difference are as follows:

Long-term Debt:	
Debt payable to County of Santa Cruz	(\$166,857)
Redevelopment tax allocation	
Bonds	(24,865,000)
Capital leases	(5,684,116)
Sec 108 loan	(2,258,000)
Special assessment bonds	<u>(1,057,000)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental assets	<u>(\$34,030,973)</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 charges 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 \$30,712,853 difference are as follows:

Capital outlay	\$33,142,569
Depreciation expense	<u>(2,235,627)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$30,906,942</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

III. Stewardship, compliance, and accountability

A. Budgetary information

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

On or before March 31 of each fiscal year all departments of the City of Watsonville are required to submit requests for appropriations to the government's management so that a budget may be prepared. Before May 31 the proposed budget is presented to the government's council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, department, and division. The government department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made several supplemental budget appropriations throughout the fiscal year, including a \$2.49 million in the general fund, \$1.142 million in the impact fees fund, \$400,000 in the low income housing set aside fund, \$878,693 in the redevelopment and housing grant fund, \$514,969 in the gas tax fund, \$500,000 in the measure E fund, \$4.995 million in the redevelopment fund, \$517,500 in the rental rehab fund, \$400,000 in the affordable housing fund, and a reduction of appropriations in the library fund of \$3.933 million.

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, 2007, expenditures exceeded appropriations in the general debt service fund by \$38,151, park development fund by \$197,694, parking garage fund by \$41,738, retirement tax fund by \$3,227, redevelopment debt service fund by \$2,161,800 and the 911 special revenue fund by \$595. A transfer from the fire's impact fee fund funded the deficit for the general debt service fund. The park development fund budget deficit was funded by excess fund balance. The parking garage fund, retirement fund and 911 revenue fund expenditures will be funded by future revenue collections. Redevelopment Agencies are required to transfer 20% of gross tax increment to the 20% low and moderate housing fund by state law, which caused the excess transfer.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

C. Deficit fund equity

The special revenue funds had the following deficit fund balances: Retirement fund \$350,068, Parking Garage fund of \$267,645, 911 Revenue fund \$14,863, Impact Fees fund \$1,948,368, Redevelopment and Housing Grant fund \$1,364,788 and the Internal Service fund \$ 20,308,889 as of June 30, 2007. The special revenue funds will make these deficits up with future special revenue funds and the Internal Service fund will increase its charges to City users in the future.

IV. Detailed notes on all funds

A. Cash and investments

Cash and investments at June 30, 2007, consisted of the following:

Total Pooled Deposits and Investments	\$41,565,712
Cash and Investments with Fiscal Agent	5,328,481
Restricted Cash and Investments	<u>9,811,286</u>
Total Cash and Investments	<u>\$56,705,479</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, 2007 were as follows:

<u>Cash</u>		
Demand Deposits	\$ 2,069,267	
Outstanding Checks	(1,923,634)	
Deposits in Transit	<u>58,905</u>	
Net Demand Deposits	204,538	
Petty Cash	<u>9,170</u>	
Cash Subtotal		213,708
<u>Investments</u>		
Assessment Bonds	1,050,966	
U.S. Government Securities	18,909,560	
Mutual Funds:		
Money Market	3,729,519	
Guaranteed Investment Contracts	14,838,970	
Local Agency Investment Fund	<u>17,962,756</u>	
Investment Subtotal		<u>56,491,771</u>
Total Cash and Investments		<u>\$56,705,479</u>

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Governmental Funds:	
General	\$2,171,811
Impact Fees	651,363
Low Income Housing Set-Aside	1,398,712
General Debt Service	818,166
Redevelopment Debt Service	3,444,149
Other Non-major Funds	<u>16,870,099</u>
Total Governmental Funds	<u>25,354,300</u>
Business-type Activities:	
Water	8,626,498
Sewer	15,423,559
Solid waste	5,751,445
Airport	<u>1,150</u>
Total Business-type Activities	<u>29,802,652</u>
<u>Governmental Activities</u>	
Internal Service Fund	<u>1,548,527</u>
Total Governmental Activities	<u>1,548,527</u>
Total Government Cash	<u>\$56,705,479</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 \$100,000 by federal depository insurance.

At June 30, 2007, the government's carrying amount of deposits and cash on hand was \$213,708 and bank balances was \$2,069,267. Of the bank balances, \$200,000 was covered by Federal Depository Insurance and \$1,869,267 by collateral held by the government's agent in the government's name.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of * Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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>
U.S. Treasury Notes	\$2,993,880	\$2,993,880	-	-
Federal Agency Securities	15,915,680	12,925,985	\$2,989,695	-
State Investment Pool	17,962,756	17,962,756	-	-
Debt of City of Watsonville	1,050,966	-	-	\$1,050,966
Money Market	3,729,519	3,729,519	-	-
Guaranteed Inv. Contracts	14,838,970	-	-	14,838,970
Total	<u>\$56,491,771</u>	<u>\$37,612,140</u>	<u>\$2,989,695-</u>	<u>\$ -</u>
			<u>\$ -</u>	<u>\$15,889,963</u>

Disclosures Relating to Credit Risk

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
U.S. Treasury Notes	\$2,993,880	N/A	\$2,993,880		
Federal Agency Securities	15,915,680	N/A		\$15,915,680	
State Investment Pool	17,962,756	N/A			\$17,962,756
Debt of City of Watsonville	1,050,966	N/A			1,050,966
Money Market	3,729,519	N/A			3,729,519
Guaranteed Inv. Contracts	14,838,970	N/A		14,838,970	
Total	<u>\$56,491,771</u>		<u>\$2,993,880</u>	<u>\$30,754,650</u>	<u>\$22,743,241</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

(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, 2007 the amortized cost value of the pool was \$65,643,489,036 and the estimated fair value of the pool was \$65,756,665,933. The reported value of the government's portion of LAIF is the same value as the fair value of LAIF shares. Included in LAIF's investment portfolio are certain derivative securities or similar products, in the form of structured notes, totaling \$774,000,000. 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 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	-	-	315,976	-
Taxes	2,425,955	-	-	-
Deferred				
Assessments	-	-	-	-
Accounts	128,694	-	-	768,675
Intergovernmental	<u>206,974</u>	<u>8,385,663</u>	<u>-</u>	<u>-</u>
Total governmental activities receivables	<u>2,761,596</u>	<u>8,385,663</u>	<u>315,976</u>	<u>768,675</u>

<u>(Continued)</u>	<u>General Debt Service</u>	<u>Debt Service Redevelopment</u>	<u>Nonmajor Funds</u>
Governmental Activities:	\$	\$	\$
Receivables:			
Interest	-	-	9,350
Taxes	6,819	313,986	636,638
Deferred			
Assessments	1,057,000	-	-
Accounts	-	-	27,751
Intergovernmental	<u>-</u>	<u>-</u>	<u>190,000</u>
Total governmental Activities receivables	<u>1,063,819</u>	<u>313,986</u>	<u>863,739</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Business-type Activities:	<u>Water</u>	<u>Sewer</u>	<u>Waste</u>	<u>Airport</u>	<u>Internal Service</u>
Receivables:	\$	\$	\$	\$	\$
Interest	317,361	6,406	12,644	-	-
Accounts	1,202,134	859,807	841,285	202,607	179,663
Loan	-	<u>235,492</u>	-	-	-
Total business-type activities receivables	<u>1,519,495</u>	<u>1,101,705</u>	<u>853,929</u>	<u>202,607</u>	<u>179,663</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)	1,057,000	-
Grant funds received but not earned	-	142,356
Grants draw downs prior to meeting all eligibility requirements:		
general fund	185,953	-
special revenue funds	8,864,196	-
Loans receivables prior to meeting all eligibility requirements:		
special revenue funds	<u>19,426,237</u>	-
Total deferred revenue	<u>29,533,386</u>	<u>142,356</u>

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

	<u>Beginning</u> <u>Balance</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Ending</u> <u>Balance</u> \$
Governmental activities:				
Capital assets, not being depreciated:				
Land	15,013,810	173,066	(36,262)	15,150,614
Construction in progress	<u>37,381,561</u>	<u>29,753,670</u>	-	<u>67,135,231</u>
Total capital assets, not being depreciated	<u>52,395,371</u>	<u>29,926,736</u>	<u>(36,262)</u>	<u>82,285,845</u>
Capital assets, being depreciated:				
Building and improvements	32,967,345	1,787,845	(320,035)	34,435,155
Machinery and equipment	10,395,595	1,427,988	(480,990)	11,342,593
Infrastructure	<u>23,459,548</u>	-	-	<u>23,459,548</u>
Total capital assets being depreciated	<u>66,822,488</u>	<u>3,215,833</u>	<u>(801,025)</u>	<u>69,237,296</u>
Less accumulated depreciation for:				
Building and improvements	(16,196,124)	(977,682)	162,208	(17,011,598)
Machinery and equipment	(5,422,281)	(988,047)	480,990	(5,929,338)
Infrastructure	<u>(17,513,789)</u>	<u>(269,898)</u>	-	<u>(17,783,687)</u>
Total accumulated depreciation	<u>(39,132,194)</u>	<u>(2,235,627)</u>	<u>643,198</u>	<u>(40,724,623)</u>
Total capital assets, Being depreciated, net	<u>27,690,294</u>	<u>980,206</u>	<u>(157,827)</u>	<u>28,512,673</u>
Governmental activities capital assets, net	<u>80,085,665</u>	<u>30,906,942</u>	<u>(194,089)</u>	<u>110,798,518</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
	\$	\$	\$	\$
Business-type activities:				
Capital assets, not being depreciated:				
Land	20,235,970	2,946,140	-	23,182,110
Construction in progress	<u>6,910,042</u>	<u>7,458,664</u>	<u>-</u>	<u>14,368,706</u>
Total capital assets, not being depreciated	<u>27,146,012</u>	<u>10,404,804</u>	<u>-</u>	<u>37,550,816</u>
Capital assets, being depreciated:				
Building and improvements	30,864,892	776,142	(126,268)	31,514,766
Machinery and equipment	10,270,480	1,913,175	(120,156)	12,063,478
Infrastructure	<u>48,712,719</u>	<u>2,184,992</u>	<u>-</u>	<u>50,897,711</u>
Total capital assets being depreciated	<u>89,848,091</u>	<u>4,874,309</u>	<u>(246,424)</u>	<u>94,702,244</u>
Less accumulated depreciation for:				
Building and improvements	(19,220,146)	(789,683)	126,268	(19,883,561)
Machinery and equipment	(4,808,927)	(910,742)	100,021	(5,619,648)
Infrastructure	<u>(28,930,005)</u>	<u>(1,425,068)</u>	<u>-</u>	<u>(30,355,073)</u>
Total accumulated depreciation	<u>(52,959,078)</u>	<u>(3,125,493)</u>	<u>226,289</u>	<u>(55,858,282)</u>
Total capital assets, being depreciated, net	<u>36,889,013</u>	<u>1,748,816</u>	<u>(20,156)</u>	<u>38,617,673</u>
Business-type activities capital assets, net	<u>64,035,025</u>	<u>12,153,620</u>	<u>(20,156)</u>	<u>76,168,489</u>

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

Government activities:	
General government	\$708,655
Public safety	565,553
Housing	26,360
Highways and streets	265,853
Culture and recreation	<u>669,206</u>
Total depreciation expense - governmental activities	<u>\$2,235,627</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Business-type activities:

Water	\$640,625
Sewer	1,558,113
Solid Waste	708,778
Airport	<u>217,977</u>

Total depreciation expense - business-type activities \$3,125,493

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2007, 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, 2007 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental Funds:	\$	\$
General	8,405,690	-
Impact Fees	-	1,354,200
Redevelopment & Housing	-	1,728,633
Nonmajor Funds	-	<u>1,897,245</u>
Total Governmental Funds	<u>8,405,690</u>	<u>4,980,078</u>
Business-type Funds:		
Enterprise Funds:		
Airport	-	3,425,612
Water	2,037,722	
Sewer	-	<u>2,037,722</u>
Total Business-type Funds	<u>2,037,722</u>	<u>5,463,334</u>
Total government	<u>10,443,412</u>	<u>10,443,412</u>

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, 2007 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	176,207

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Non-major Funds	<u>139,485</u>	<u>1,001,852</u>
Total Governmental Funds	<u>522,706</u>	<u>1,178,059</u>
Business-type Funds:		
Water	<u>905,353</u>	<u>-</u>
 Internal Service Funds:		
Internal Service Fund	<u>-</u>	<u>250,000</u>
Total Business-type Funds	<u>905,353</u>	<u>250,000</u>
Total government	<u>1,428,059</u>	<u>1,428,059</u>

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				
	General Fund	General Debt Service Fund	RDA Debt Service Fund	Non-major Funds	Total
<u>Transfers out:</u>	\$	\$		\$	\$
Low Income Housing					
Set Aside	-	-	586,093	-	586,093
Redevelopment-Housing	150,000	249,715	-	-	399,715
Redevelopment Debt					
Service	-	-	-	3,864,670	3,864,670
Non-major Funds	<u>4,650,025</u>	<u>1,049,444</u>	<u>-</u>	<u>-</u>	<u>5,699,469</u>
Total Transfers Out	<u>4,800,025</u>	<u>1,299,159</u>	<u>586,093</u>	<u>3,864,670</u>	<u>10,549,947</u>

E. Leases

Operating lease

The government has entered into a noncancellable operating lease for 911 and public safety dispatching services with Santa Cruz Consolidated Emergency Communications Center. Total cost for the lease was \$76,885 for the fiscal year ended June 30, 2007. The future minimum lease payments as of June 30, 2007, are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
	\$
2008	76,779
2009	76,181
2010	77,332
2011	76,503
2012	55,268
2013	55,465
2014	55,554
2015	54,653

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

2016	55,463
2017	55,228
2018	54,885
2019	55,316
2020	54,703
2021	54,864
2022	54,863
2023	54,700
2024	<u>55,257</u>
	<u>1,023,014</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, 2007, the government has the option to purchase the hangars for \$827,527. 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> \$
2008	133,391
2009	133,391
2010	133,391
2011	133,391
2012	133,391
2013	133,391
2014	<u>55,580</u>
Total lease payments	855,926
Less imputed interest	<u>(117,114)</u>
Net present value of total future lease payments	<u>738,812</u>

In 1999, the government entered into a lease, with the option to purchase, for 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, 2007 was \$1,623,517. 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:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Fiscal Year Ended <u>June 30,</u>	<u>Payment</u> \$
2008	274,657
2009	274,657
2010	274,657
2011	274,657
2012	274,657
2013	274,657
2014	<u>274,658</u>
Total lease payments	<u>1,922,600</u>
Less imputed interest	<u>(330,919)</u>
Net present value of total future lease payments	<u>1,591,681</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 is expected to be completed during the 2006/07 fiscal year.

Interest rates for the Certificates range from 2% to 4% with principal payments ranging from \$535,000 to \$1,005,000 through fiscal year 2013.

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

Maturity Date <u>March 1,</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2008	845,000	197,944	1,042,944
2009	875,000	172,594	1,047,594
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>5,520,000</u>	<u>750,788</u>	<u>6,270,788</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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

lease was \$179,792 with an interest rate of 5.049%. The purchase option amount as of June 30, 2007 was \$152,378. Delivery of the fire engines is expected during the 2007/08 fiscal year.

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>January 16,</u>	\$	\$	\$
2008	14,854	8,286	23,140
2009	15,604	7,536	23,140
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>164,116</u>	<u>44,144</u>	<u>208,260</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, 2007.

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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 5.1% to 5.70% to fund the construction of a new 10 acre phase III landfill cell.

Revenue bonds payable at June 30, 2007 consist of the following individual issues:

	<u>Amount</u>
	\$
\$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%	5,215,000
\$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%	5,440,000
\$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%	2,885,000
\$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>2,545,000</u>
Total Revenue Bonds	<u>16,085,000</u>

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

1998 Water Revenue Refunding Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2008	470,000	253,676	723,676
2009	505,000	229,001	734,001
2010	525,000	206,276	731,276
2011	550,000	181,995	731,995
2012	575,000	155,870	730,870
2013	600,000	128,270	728,270

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June 30, 2007 (Continued)

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>5,215,000</u>	<u>1,356,958</u>	<u>6,571,958</u>

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

1998 Sewer Revenue Refunding Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2008	495,000	262,576	757,576
2009	520,000	240,301	760,301
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>5,440,000</u>	<u>1,419,708</u>	<u>6,859,708</u>

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

1998 Solid Waste Revenue Refunding Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2008	265,000	139,390	404,390
2009	275,000	127,333	402,333
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>2,885,000</u>	<u>753,116</u>	<u>3,638,116</u>

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

1996 Solid Waste Revenue Bonds

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>May 15,</u>	\$	\$	\$
2008	230,000	137,835	367,835
2009	240,000	126,105	366,105
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>2,545,000</u>	<u>744,415</u>	<u>3,289,415</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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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

Maturity Date <u>September 1</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2007	510,000	830,298	1,340,298
2008	530,000	809,498	1,339,498
2009	555,000	787,798	1,342,798
2010	575,000	765,198	1,340,198
2011	600,000	741,698	1,341,698
2012	620,000	717,298	1,337,298
2013	645,000	691,998	1,336,998
2014	675,000	665,598	1,340,598
2015	700,000	637,398	1,337,398
2016	730,000	606,820	1,336,820
2017	760,000	573,843	1,333,843
2018	795,000	538,458	1,333,458
2019	830,000	500,668	1,330,668
2020	870,000	460,500	1,330,500
2021	910,000	418,225	1,328,225
2022	955,000	373,931	1,328,931
2023	1,000,000	326,875	1,326,875
2024	1,050,000	276,250	1,326,250
2025	400,000	240,000	640,000
2026	415,000	219,625	634,625
2027	440,000	198,250	638,250
2028	460,000	175,750	635,750
2029	485,000	152,125	637,125
2030	505,000	127,375	632,375
2031*	535,000	101,375	636,375
2032*	560,000	74,000	634,000
2033*	585,000	45,375	630,375
2034*	<u>615,000</u>	<u>15,375</u>	<u>630,375</u>
Total	<u>18,310,000</u>	<u>12,071,602</u>	<u>30,381,602</u>

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

2004 Tax Allocation Bonds, Series B-1

A portion of the proceeds from this issue is to be used to finance certain low and moderate income housing capital improvements within the Redevelopment Project Area. Interest rates for the Series B-1 bonds range from 4% to 5% with principal payments ranging from \$60,000 to \$170,000 through fiscal year 2025.

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

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2007	85,000	95,171	180,171
2008	85,000	91,771	176,771
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
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>2,170,000</u>	<u>1,023,500</u>	<u>3,193,500</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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

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

Maturity Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>September 1</u>	\$	\$	\$
2007	155,000	247,130	402,130
2008	160,000	240,630	400,630
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>4,385,000</u>	<u>2,756,604</u>	<u>7,141,604</u>

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

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

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Limited obligation bonds payable at June 30, 2007 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%.	\$ 22,000
\$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%.	51,000
\$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%.	57,000
\$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%.	96,000
\$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%.	76,000
\$55,944 Watson Drive assessment district bonds due in annual principal installments ranging from \$944 to \$4,000 through September 2017, interest rate is 6.0%.	40,000
\$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%.	637,000
\$100,022 7 th , 8 th & 9th Street assessment district bonds due in annual principal installments ranging from \$5,000 to \$10,000 through September 2017, interest rate is 6.0%.	<u>78,000</u>
Total limited obligation bonds payable at June 30, 2007	<u>1,057,000</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2008	92,000	66,510	158,510
2009	94,000	60,537	154,537
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>52,000</u>	<u>3,185</u>	<u>55,185</u>
Total	<u>1,057,000</u>	<u>411,177</u>	<u>1,468,117</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 \$166,857 at June 30, 2007. The loan has a 0% imputed interest rate.

<u>Fiscal Year</u>	<u>Principal</u> \$
2008	23,836
2009	23,836
2010	23,836
2011	23,836
2012	23,836
2013	23,836
2014	<u>23,841</u>
Total	<u>166,857</u>

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2007 is as follows:

Maturity Date <u>August 1</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2007	117,000	117,620	234,620
2008	110,000	113,302	223,302
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>2,258,000</u>	<u>1,246,854</u>	<u>3,504,854</u>

Municipal landfill closure and post-closure liability and requirements

The government operates a landfill solely for the disposal of Watsonville residents' 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 \$1,089,603

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, 2007, the new landfill cell had used 59.7% of its projected space. The estimated closure and post-closure costs were \$782,533 and \$657,328. The estimated remaining closure and postclosure costs are \$527,517 and \$443,114, which will be recognized as the remaining

CITY OF WATSONVILLE, CALIFORNIA
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June 30, 2007 (Continued)

capacity is used (estimated to be 8.3 years). To date, the fund has \$1,078,530 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$868,260 and post-closure costs of \$729,390 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.

Changes in long-term debt

Long-term debt activity for the fiscal year ended June 30, 2007, 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>
	\$	\$	\$	\$	\$
Governmental activities:					
Bonds Payable:					
Tax allocation bonds	25,520,000	-	(655,000)	24, 865,000	750,000
Special assessment debt with government commitment	<u>1,143,000</u>	<u>-</u>	<u>(89,000)</u>	<u>1,057,000</u>	<u>92,000</u>
Total bonds payable	26,663,000	-	(744,000)	25,919,000	842,000
Capital lease	6,345,000	179,792	(840,676)	5,684,116	819,854
Debt payable	190,693	-	(23,836)	166,857	23,836
Note payable	<u>2,386,000</u>	<u>-</u>	<u>(128,000)</u>	<u>2,258,000</u>	<u>117,000</u>
Governmental activity Long-term liabilities	<u>35,584,693</u>	<u>179,792</u>	<u>(1,736,512)</u>	<u>34,030,973</u>	<u>1,802,690</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	17,485,000	-	(1,400,000)	16,085,000	1,460,000
Less deferred amounts:					
For issuance discounts	<u>(973,790)</u>	<u>-</u>	<u>165,490</u>	<u>(808,300)</u>	<u>-</u>
Total bonds payable	16,511,210	-	(1,234,510)	15,276,700	1,460,000
Capital leases	2,610,904	-	(280,411)	2,330,493	294,776
Landfill closure	<u>2,600,300</u>	<u>144,627</u>	<u>(68,747)</u>	<u>2,676,180</u>	<u>-</u>
Business-type activity Long-term liabilities	<u>21,722,414</u>	<u>144,627</u>	<u>(1,583,668)</u>	<u>20,283,373</u>	<u>1,754,776</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

G. Restricted cash and investments

The balances of restricted cash and investments accounts in governmental activities are as follows:

Governmental Activities:

Non-major funds	
Restricted for specific assets	<u>9,811,286</u>
Total governmental activities	
Restricted cash and investments	<u>\$9,811,286</u>

H. 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, 2007 were as follows:

	General Fund \$	Impact Fees Fund \$	Low Income Housing Set Aside Fund \$	Other Governmental Funds \$	Total \$
Encumbrances	1,202,149	-	280,188	875,347	2,357,684
Insurance	2,314,155	-	-	-	2,314,155
Charter	2,450,000	-	-	-	2,450,000
Inventories	41,868	-	-	-	41,868
Advances	26,556	-	-	139,485	166,041
Land Held for					
Resale	-	-	2,811,673	-	2,811,673
Restricted assets	-	-	-	7,871,677	7,871,677

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, 2007.

Reserved for Insurance - The City Charter requires the General Fund to reserve additional funds to cover all incurred but not reported liabilities.

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.

Restricted Assets - This reserve is for funds held for specific purpose and is not available to finance current expenditures.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

V. Other information

A. Arbitrage liability

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

B. Risk management

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

The government's risk management programs provide coverage for up to a maximum of \$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 \$153,205 in the current fiscal year and \$701,075 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.

Funded liabilities in the self-insurance fund at June 30, 2007 totaled \$3,501,488 as follows: Health Benefits \$668,596; General Liability \$87,100; and Workers' Compensation \$2,745,792.

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 ½ times current fiscal year's average monthly cost,
- General Liability is estimated at 6 months of current fiscal year's average monthly claim cost, Workers' Compensation is estimated by using the last two weeks of current fiscal year's average monthly claim cost.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

	<u>2005/06</u>	<u>2006/07</u>
Claims incurred but not reported:	\$	\$
Beginning	1,076,251	775,220
Incurred claims	955,113	2,199,908
Claims paid	<u>(1,256,144)</u>	<u>(2,219,433)</u>
Ending	<u>775,220</u>	<u>755,695</u>
Claims payable:		
Beginning	2,491,972	2,075,806
Incurred claims	3,719,866	5,109,975
Claims paid	<u>(4,136,032)</u>	<u>(4,439,990)</u>
Ending	<u>2,075,806</u>	<u>2,745,791</u>

C. Public entity risk pool

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

General liability

The City is self-insured for general liability claims up to \$500,000 (effective November 11, 1994) for each occurrence. Coverage for individual losses in excess of \$500,000, up to \$10,000,000 is provided through the Public Risk Sharing Authority of California (PARSAC). Under this program, members share in losses between the members' individual self-insured retention and \$1,000,000 under a risk sharing pool program; and from \$1,000,000 to \$10,000,000 coverage is provided by an other 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, 2007, total estimated claims payable for General Liability were \$87,100.

D. Commitments and Contingencies

Litigation

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Grant audits

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

Combined districts

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

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

Contingency

Proposition 218, which was approved by the voters in November 1996, will regulate the government's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the government's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. Certain language in the initiative is unclear as to the scope and impact of the proposition. Future court rulings or state legislation may clarify these issues. At this time it is uncertain as to the effect that Proposition 218 will have on the government's ability to maintain or increase the revenue it receives from taxes, assessments and fees, or its effect on interfund payments in lieu of taxes and transfers of surplus funds from enterprise funds to the general fund. Also unclear is the extent to which a 1995 California Supreme Court ruling (the *Guardino* case) upholding the voter approval requirements of a previously enacted state initiative (Proposition 62) are 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.

Subsequent Event

On November 28, 2007, the City issued \$27,345,000 of Water Revenue Bonds to fund the construction of a Water Recycling Facility. The interest rate on the bonds range from 4.0 – 5.1 percent and the final maturity is on May 15, 2037. Some debt service payments are schedule semiannually at amounts that range from \$800,000 - \$1,500,000 and some are term bonds that range from \$2,805,000 – \$7,415,000.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

E. Post-employment health care benefits

Retiree benefits

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, 2007, twenty retired employees participated in this program.

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, one former employee participated in the program.

F. Defined benefit pension plan

Plan description

The City of Watsonville contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS act as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report, which contains the required trend information, may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Safety Employees Plans Change:

Effective July 1, 2006, the City's Safety Employees Plans (sworn police and fire employees) became members of CalPERS safety risk pools. CalPERS regulations require that public agency plans with less than 100 active members participate in a risk pool. After joining a risk pool, a plan cannot at a future date request to leave the risk pool structure and become a stand-alone plan. Therefore, even if the City were to exceed 100 active members in the future, the Safety Employee Plans will remain in the risk pools.

Funding policy:

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The government makes a 4% contribution for non-safety employees, except for Clerical-Technical

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

employees where the government makes the full 7% required contribution and for safety employees (police and fire) the employees make the required contribution themselves for their account. The government is required to contribute at an actuarially determined rate; the current rate is 9.455% for non-safety employees, 26.141% for police employees and 26.679% for fire employees, of annual covered payroll. The contribution requirements of plan members and the government is established and may be amended by PERS.

Annual pension cost:

For 2007, the government's annual pension cost for Miscellaneous employees was \$1,690,069, Police employees was \$1,394,979 and Fire employees was \$797,769 for CalPERS were equal to their required and actual contributions. The annual required contribution (ARC) was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. CalPERS reports that the lag time is necessary due to the amount of time needed for them to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

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

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

THREE-YEAR TREND INFORMATION FOR PERS:

Miscellaneous Employee Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
	\$	%	\$
6/30/05	535,191	100	0
6/30/06	1,443,080	100	0
6/30/07	1,690,069	100	0
Police Safety Plan			
6/30/05	1,196,787	100	0
6/30/06	1,275,758	100	0
6/30/07	1,394,979	100	0

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Fire Safety Plan			
6/30/05	723,375	100	0
6/30/06	714,835	100	0
6/30/07	797,769	100	0

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

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	Actuarial		<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(A-B)</u> <u>\$</u>	<u>Funded</u> <u>Ratio</u> <u>(B/A)</u>	<u>Covered</u> <u>Payroll</u> <u>(C)</u> <u>\$</u>	<u>UAAL</u> <u>As a % of</u> <u>Payroll</u> <u>((A-B)/C)</u>
	<u>Liability/</u>	<u>Actuarial</u>				
	<u>(AAL)</u>	<u>Value of</u>				
	<u>Ent Age</u>	<u>Assets</u>				
	<u>(A)</u>	<u>(B)</u>				
	<u>\$</u>	<u>\$</u>				
Miscellaneous						
6/30/04	54,820	49,347	5,473	90.0%	14,424	37.9%
6/30/05	59,760	53,393	6,367	89.3%	14,578	43.7%
6/30/06	64,901	58,576	6,325	90.2%	15,121	41.8%
Safety Police - Pool						
6/30/04	5,383,922	4,424,587	959,335	82.2%	575,296	166.8%
6/30/05	6,367,049	5,295,150	1,071,899	83.2%	664,148	161.4%
6/30/06	7,278,049	6,102,615	1,175,434	83.8%	754,730	155.7%
Safety Fire - Pool						
6/30/04	5,383,922	4,424,587	959,335	82.2%	575,596	166.8%
6/30/05	6,367,049	5,295,150	1,071,899	83.2%	664,178	161.4%
6/30/06	7,278,050	6,102,615	1,175,435	83.8%	754,730	155.7%

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, 2007 for both governmental activities and business-type activities. The adjustments were as follows:

	<u>Beginning</u> <u>Balance</u> <u>\$</u>	<u>Additions</u> <u>\$</u>	<u>Decreases</u> <u>\$</u>	<u>Beginning</u> <u>Balance</u> <u>Restated</u> <u>\$</u>
Governmental Activities:				
General fund	6,098,549	-	(800,495)	5,298,054
Impact Fees	7,141,658	177,013	-	7,318,671
Redevelopment debt	3,593,028	-	(34,868)	3,558,160
Nonmajor funds:				
Gas Tax	836,489	29,717	-	866,206

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Continued)

Narcotics Asset Seizure	186,610	-	(13,194)	173,416
Enterprise community grant fund	221,932	-	(243,406)	(21,474)
Rental rehabilitation grants	-	480,787	-	480,787
Library	6,436,578	-	(2,736,651)	3,699,927
Measure E sales tax	1,811,455	-	(500,000)	1,311,455
Parks development	2,023,870	11,818	-	2,035,688
Redevelopment	7,672,175	3,236,650	-	10,908,825
911 Revenue	-	1,761	-	1,761
Business-type Activities:				
Water	23,739,994	6,005,885	-	29,745,879
Sewer	48,957,929	-	(88,507)	48,869,422

Following are detailed explanations of prior period adjustments:

Governmental Activities:

General Fund:

1. An adjustment was made to adjust deferred revenue in the amount of \$81,936
2. An adjustment was made to fund balance for over reporting of expenditures in prior years of \$882,431.

Impact Fees Fund:

1. Adjustments were made to record various expenses related to the Atkinson Lane project in the amount of \$177,013.

Redevelopment Debt Service Fund:

1. Adjustments were made to record trustee activity with fiscal agent to correct funds of (\$34,868).

Non-major funds:

Gas Tax

1. An adjustment was made to fund balance for over reporting of expenditures in prior years of \$29,717.

Narcotics Asset Seizure Fund:

1. This adjustment is for under recording of expenditures in the amount of (\$13,194).

Enterprise Community Grant Fund:

1. An adjustment was made to adjust deferred revenue to actual in the amount of \$243,406.

Rental Rehabilitation grants Fund:

1. This adjustment is to record deferred revenue in the amount of \$480,787.

Library Fund:

1. This adjustment is to reallocate Civic Center Costs in the amount of \$2,736,651.

Measure E Sales Tax Fund:

1. This adjustment is to reallocate Civic Center Costs in the amount of \$500,000.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 (Concluded)

Parks Development Fund:

1. This adjustment is for under recording of revenues in the amount of \$11,818.

Redevelopment Fund:

1. An adjustment was made to reallocate Civic Center Costs in the amount of \$3,236,651.
2. An adjustment was made to correct two- note receivables in the amount of (\$32,225) and to forgive a note in the amount of (\$1,930.)

911 Revenue Fund:

1. This adjustment is for under recording of revenues in the amount of \$1,716.

Business-type Activities:

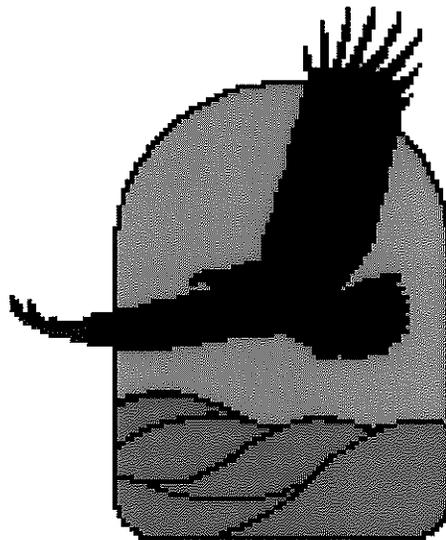
Water Fund:

1. An adjustment was made for under recording of expenditures in the amount of (\$100,326).
2. An adjustment was made to adjust Work-In-Progress in the amount of \$5,017,112.
3. An adjustment was made to record a Note-Receivable \$1,089,932.
4. An adjustment was made to remove taxes receivable in the amount of (\$833).

Sewer Fund:

1. This adjustment is for under recording of expenditures in the amount of (\$88,507).

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WATSONVILLE
CALIFORNIA

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.

Enterprise Community Grant

The City received a 10-year grant from the Department of Social Services. The receipt and disbursement of this grant is recorded in this fund.

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 sunsetted 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 and Housing Grants Fund

The Housing and Urban Development Agency provides assistance to low and moderate income individuals via these grants. These grants offer a number of housing programs to help low to moderate income Watsonville residents improve their housing conditions.

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.

911 Revenue

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

CITY OF WATSONVILLE, CALIFORNIA
 NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2007

	Special Revenue Funds							
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ENTERPRISE COMMUNITY GRANT	RENTAL REHABILITATION GRANTS	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS:								
Cash and investments	1,678,797	185,600	226,840	-	480,787	-	868,733	1,556,316
Restricted cash and investments	-	-	-	-	-	3,375,135	-	-
Receivables:								
Interest	-	-	-	-	9,350	-	-	-
Taxes	88,403	-	-	-	-	333,289	-	7,943
Accounts	-	-	-	-	-	-	-	-
Intergovernmental	190,000	-	-	-	-	-	-	-
Advances receivable	-	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	104,285	241,758	-	82,050
Total Assets	1,957,200	185,600	226,840	-	594,422	3,950,182	1,359,994	1,646,309
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	62,367	1,409	-	-	-	12,717	-	1,337
Accrued personnel costs	-	-	-	-	-	-	-	-
Retentions payable	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	1,069,351	-	-
Advances payable	-	-	-	-	-	-	-	-
Deferred revenue	190,000	-	-	-	113,635	241,758	491,261	-
Unearned revenue	-	-	1,079	-	-	-	-	-
Deposits	-	33,343	-	-	-	-	-	-
Total Liabilities	252,367	34,752	1,079	-	113,635	1,323,826	491,261	1,337
Fund Balances:								
Reserved for encumbrances	-	-	-	-	-	-	-	-
Reserved for advances	-	-	-	-	-	-	-	82,050
Reserved for restricted assets	-	-	-	-	-	3,375,135	-	-
Unreserved - designated for subsequent years expenditures	1,704,833	150,848	225,761	-	480,787	(748,779)	868,733	1,562,922
Total Fund Balances	1,704,833	150,848	225,761	-	480,787	2,626,356	868,733	1,644,972
Total Liabilities and Fund Balances	1,957,200	185,600	226,840	-	594,422	3,950,182	1,359,994	1,646,309

Continued

CITY OF WATSONVILLE, CALIFORNIA
 NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2007

Special Revenue Funds

	RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	AFFORDABLE HOUSING	911 REVENUE	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS:								
Cash and investments	-	-	-	216,835	45,351	1,799,554	-	7,058,813
Restricted cash and investments	-	6,436,151	-	-	-	-	-	9,811,286
Receivables:								
Interest	-	-	-	-	-	-	-	9,350
Taxes	163,450	-	-	-	12,928	-	-	636,638
Accounts	-	15,831	8,770	-	3,150	-	-	27,751
Intergovernmental	-	-	-	-	-	-	-	190,000
Advances receivable	-	-	-	-	-	57,435	-	139,485
Loans receivable	-	200,091	-	45,319	-	1,556,238	-	2,638,952
Total Assets	163,450	6,652,073	8,770	262,154	61,429	3,413,227	30,625	20,512,275
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts payable	-	44,637	6,787	-	-	-	-	129,254
Accrued personnel costs	-	19,494	740	-	-	18,093	-	38,327
Retentions payable	-	13,039	-	-	-	-	-	13,039
Due to other funds	513,518	-	268,888	-	-	-	45,488	1,897,245
Advances payable	-	1,001,852	-	-	-	-	-	1,001,852
Deferred revenue	-	200,091	-	45,319	-	1,556,238	-	2,836,302
Unearned revenue	-	1,436	-	-	-	-	-	2,515
Deposits	-	-	-	-	-	-	-	33,343
Total Liabilities	513,518	1,280,549	276,415	45,319	-	1,574,331	45,488	5,953,877
Fund Balances:								
Reserved for encumbrances	-	874,982	-	-	-	365	-	875,347
Reserved for advances	-	-	-	-	-	57,435	-	139,485
Reserved for restricted assets	-	4,486,542	-	-	-	-	-	7,871,677
Unreserved - designated for subsequent years expenditures	(350,068)	-	(267,645)	216,835	61,429	1,781,096	(14,863)	5,671,889
Total Fund Balances	(350,068)	5,371,524	(267,645)	216,835	61,429	1,838,896	(14,863)	14,558,398
Total Liabilities and Fund Balances	163,450	6,652,073	8,770	262,154	61,429	3,413,227	30,625	20,512,275

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, 2007

	Special Revenue Funds										
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ENTERPRISE COMMUNITY GRANT	RENTAL REHABILITATION GRANTS	LIBRARY	MEASURE E SALES TAX	PARKS DEVELOPMENT			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:											
Taxes	911,889	-	-	-	-	2,812,056	-	-	-	-	-
Licenses, permits and fees	-	-	78,640	-	-	54,128	-	-	-	332,312	-
Intergovernmental	619,104	-	-	21,474	-	142,044	-	-	-	-	-
Interest	78,230	9,201	14,552	-	27,105	134,469	-	-	-	-	88,566
Miscellaneous	-	1,514	-	-	29,620	17,055	-	-	-	-	-
Total revenues	1,609,223	10,715	93,192	21,474	56,725	3,159,752	-	-	-	-	420,878
EXPENDITURES:											
Current:											
General government	-	-	73,045	-	-	2,000,028	-	-	-	-	86,403
Housing	-	-	-	-	56,725	-	-	-	-	-	-
Capital outlay	580,596	33,283	-	-	-	1,183,851	-	-	442,722	-	725,191
Total expenditures	580,596	33,283	73,045	-	56,725	3,183,879	-	-	(442,722)	-	811,594
Excess (deficiency) of revenues over (under) expenditures	1,028,627	(22,568)	20,147	21,474	-	(24,127)	-	-	(442,722)	-	(390,716)
OTHER FINANCING SOURCES (USES):											
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	(190,000)	-	-	-	-	(1,049,444)	-	-	-	-	-
Total other financing sources (uses)	(190,000)	-	-	-	-	(1,049,444)	-	-	-	-	-
Net change in fund balances	838,627	(22,568)	20,147	21,474	-	(1,073,571)	-	-	(442,722)	-	(390,716)
Fund balances, July 1	836,489	186,610	205,614	221,932	-	6,436,578	-	-	1,811,455	-	2,023,870
Prior period adjustments	29,717	(13,194)	-	(243,406)	480,787	(2,736,651)	-	-	(500,000)	-	11,818
Fund balances July 1, as restated	866,206	173,416	205,614	(21,474)	480,787	3,699,927	-	-	1,311,455	-	2,035,688
Fund balances, June 30	1,704,833	150,848	225,761	-	480,787	2,626,356	-	-	868,733	-	1,644,972

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, 2007

	Special Revenue Funds							TOTALS
	RETIREMENT TAX	REDEVELOPMENT	PARKING GARAGE	BUSINESS BOOSTER LOAN PROGRAM	ABANDONED VEHICLE	AFFORDABLE HOUSING	911 REVENUE	
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Taxes	3,288,883	-	-	-	-	-	-	7,012,828
Licenses, permits and fees	-	-	118,990	-	79,980	406,056	415,571	1,485,677
Intergovernmental	-	2,462,500	-	-	-	-	-	3,245,122
Interest	-	305,078	-	15,015	-	89,847	-	762,063
Miscellaneous	-	116,281	-	19,748	-	-	-	184,218
Total revenues	3,288,883	2,883,859	118,990	34,763	79,980	495,903	415,571	12,689,908
EXPENDITURES:								
Current:								
General government	3,227	940,975	224,135	-	84,960	-	595	3,413,368
Housing	-	-	-	-	-	191,261	-	247,986
Capital outlay	-	11,344,855	-	-	-	-	-	14,310,498
Total expenditures	3,227	12,285,830	224,135	-	84,960	191,261	595	17,971,852
Excess (deficiency) of revenues over (under) expenditures	3,285,656	(9,401,971)	(105,145)	34,763	(4,980)	304,642	414,976	(5,281,944)
Transfers in	-	3,864,670	-	-	-	-	-	3,864,670
Transfers out	(4,028,425)	-	-	-	-	-	(431,600)	(5,699,469)
Total other financing sources (uses)	(4,028,425)	3,864,670	-	-	-	-	(431,600)	(1,834,799)
Net change in fund balances	(742,769)	(5,537,301)	(105,145)	34,763	(4,980)	304,642	(16,624)	(7,116,743)
Fund balances, July 1	392,701	7,672,175	(162,500)	182,072	66,409	1,534,254	-	21,407,659
Prior period adjustments	-	3,236,650	-	-	-	-	1,761	267,482
Fund balances July 1, as restated	392,701	10,908,825	(162,500)	182,072	66,409	1,534,254	1,761	21,675,141
Fund balances, June 30	(350,068)	5,371,524	(267,645)	216,835	61,429	1,838,896	(14,863)	14,558,398

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, 2007

	GAS TAX			NARCOTICS ASSETS SEIZURE		
	Budgeted Amounts		Actual	Budgeted Amounts		Actual
	Original	Final		Original	Final	
	\$	\$	\$	\$	\$	\$
REVENUES:						
Taxes	972,060	972,060	911,889	-	-	-
Intergovernmental	245,000	245,000	619,104	-	-	-
Interest	-	-	78,230	2,500	2,500	9,201
Miscellaneous	-	-	-	10,000	10,000	1,514
Total revenues	1,217,060	1,217,060	1,609,223	12,500	12,500	10,715
EXPENDITURES:						
Capital outlay	1,580,000	2,094,969	580,596	40,000	40,000	33,283
Total expenditures	1,580,000	2,094,969	580,596	40,000	40,000	33,283
Excess (deficiency) of revenues over (under) expenditures	(362,940)	(877,909)	1,028,627	(27,500)	(27,500)	(22,568)
OTHER FINANCING SOURCES (USES):						
Transfers out	(190,000)	(190,000)	(190,000)	-	-	-
Total other financing sources (uses)	(190,000)	(190,000)	(190,000)	-	-	-
Net change in fund balances	(552,940)	(1,067,909)	838,627	(27,500)	(27,500)	(22,568)
Fund balances, July 1	836,489	836,489	836,489	186,610	186,610	186,610
Prior period adjustments	-	-	29,717	-	-	(13,194)
Fund balances July 1, as restated	836,489	836,489	866,206	186,610	186,610	173,416
Fund balances, June 30	283,549	(231,420)	1,704,833	159,110	159,110	150,848
						(8,262)

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, 2007

	BUSINESS DEVELOPMENT				ENTERPRISE COMMUNITY GRANT			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget - Positive (Negative)
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Licenses, permits and fees	74,000	74,000	78,640	4,640	-	-	-	-
Intergovernmental	-	-	-	-	-	-	21,474	21,474
Interest	1,500	1,500	14,552	13,052	-	-	-	-
Total revenues	75,500	75,500	93,192	17,692	-	-	21,474	21,474
EXPENDITURES:								
Current:								
General government	73,045	73,045	73,045	-	-	-	-	-
Total expenditures	73,045	73,045	73,045	-	-	-	-	-
Net change in fund balances	2,455	2,455	20,147	17,692	-	-	21,474	21,474
Fund balances, July 1	205,614	205,614	205,614	-	221,932	221,932	221,932	-
Prior period adjustments	-	-	-	-	-	(243,406)	(243,406)	(243,406)
Fund balances July 1, as restated	205,614	205,614	205,614	-	221,932	(21,474)	(21,474)	(243,406)
Fund balances, June 30	208,069	208,069	225,761	17,692	221,932	221,932	-	(221,932)

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, 2007

	RENTAL REHABILITATION GRANTS				LIBRARY			
	Budgeted Amounts		Variance With Final Budget - Positive		Budgeted Amounts		Variance With Final Budget - Positive	
	Original	Final	Actual	(Negative)	Original	Final	Actual	(Negative)
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Taxes	-	-	-	-	2,619,255	2,619,255	2,812,056	192,801
Licenses, permits and fees	-	-	-	-	57,800	57,800	54,128	(3,672)
Intergovernmental	-	-	-	-	115,000	115,000	142,044	27,044
Interest	2,500	2,500	27,105	24,605	66,800	66,800	134,469	67,669
Miscellaneous	90,000	90,000	29,620	(60,380)	138,468	138,468	17,055	(121,413)
Total revenues	92,500	92,500	56,725	(35,775)	2,997,323	2,997,323	3,159,752	162,429
EXPENDITURES:								
Current:								
General government	-	-	-	-	2,207,064	2,209,550	2,000,028	209,522
Housing	145,260	145,260	56,725	88,535	-	-	-	-
Capital outlay	20,000	537,500	-	537,500	7,605,398	3,670,038	1,183,851	2,486,187
Total expenditures	165,260	682,760	56,725	626,035	9,812,462	5,879,588	3,183,879	2,695,709
Excess (deficiency) of revenues over (under) expenditures	(72,760)	(590,260)	-	590,260	(6,815,139)	(2,882,265)	(24,127)	2,858,138
OTHER FINANCING SOURCES (USES):								
Transfers out	-	-	-	-	(1,043,794)	(1,043,794)	(1,049,444)	(5,650)
Total other financing sources (uses)	-	-	-	-	(1,043,794)	(1,043,794)	(1,049,444)	(5,650)
Net change in fund balances	(72,760)	(590,260)	-	590,260	(7,858,933)	(3,926,059)	(1,073,571)	2,852,488
Fund balances, July 1	-	-	-	-	6,436,578	6,436,578	6,436,578	-
Prior period adjustments	-	-	480,787	480,787	-	-	(2,736,651)	(2,736,651)
Fund balances July 1, as restated	-	-	480,787	480,787	6,436,578	6,436,578	3,699,927	(2,736,651)
Fund balances, June 30	(72,760)	(590,260)	480,787	1,071,047	(1,422,355)	2,510,519	2,626,356	115,837

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, 2007

	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	-	-	-	-	359,976	332,312	(27,664)	
Interest	-	-	-	-	28,500	88,566	60,066	
Total revenues	-	-	-	-	388,476	420,878	32,402	
EXPENDITURES:								
Current:								
General government	-	-	-	-	216,490	86,403	130,087	
Capital outlay	689,898	1,189,898	442,722	747,176	397,140	725,191	(328,051)	
Total expenditures	689,898	1,189,898	442,722	747,176	613,630	811,594	(197,964)	
Net change in fund balances	(689,898)	(1,189,898)	(442,722)	747,176	(225,154)	(390,716)	(165,562)	
Fund balances, July 1	1,811,455	1,811,455	1,811,455	-	2,023,870	2,023,870	-	
Prior period adjustments	-	-	(500,000)	(500,000)	-	11,818	11,818	
Fund balances July 1, as restated	1,811,455	1,811,455	1,311,455	(500,000)	2,023,870	2,035,688	11,818	
Fund balances, June 30	1,121,557	621,557	868,733	247,176	1,798,716	1,644,972	(153,744)	

**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, 2007**

	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	3,523,031	3,523,031	3,288,883	(234,148)	-	-	-	-
Intergovernmental	-	-	-	-	-	2,462,500	2,462,500	-
Interest	-	-	-	-	-	305,078	305,078	-
Miscellaneous	-	-	-	-	50,000	50,000	116,281	66,281
Total revenues	3,523,031	3,523,031	3,288,883	(234,148)	50,000	2,883,859	2,833,859	2,833,859
EXPENDITURES:								
Current:								
General government	-	-	3,227	(3,227)	1,389,962	1,413,886	940,975	472,911
Capital outlay	-	-	-	-	15,561,466	20,532,390	11,344,855	9,187,535
Total expenditures	-	-	3,227	(3,227)	16,951,428	21,946,276	12,285,830	9,660,446
Excess (deficiency) of revenues over (under) expenditures	3,523,031	3,523,031	3,285,656	(237,375)	(16,901,428)	(21,886,276)	(9,401,971)	12,494,305
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	1,010,497	1,010,497	3,864,670	2,854,173
Transfers out	(4,028,425)	(4,028,425)	(4,028,425)	-	-	-	-	-
Total other financing sources (uses)	(4,028,425)	(4,028,425)	(4,028,425)	-	1,010,497	1,010,497	3,864,670	2,854,173
Net change in fund balances	(505,394)	(505,394)	(742,769)	(237,375)	(15,890,931)	(20,885,779)	(5,537,301)	15,348,478
Fund balances, July 1	392,701	392,701	392,701	-	7,672,175	7,672,175	7,672,175	-
Prior period adjustments	-	-	-	-	-	-	3,236,650	3,236,650
Fund balances July 1, as restated	392,701	392,701	392,701	-	7,672,175	7,672,175	10,908,825	3,236,650
Fund balances, June 30	(112,693)	(112,693)	(350,068)	(237,375)	(8,218,756)	(13,213,604)	5,371,524	18,585,128

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, 2007

	PARKING GARAGE			BUSINESS BOOSTER LOAN PROGRAM		
	Budgeted Amounts Original	Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts Original	Actual	Variance With Final Budget - Positive (Negative)
REVENUES:						
Licenses, permits and fees	175,680	118,990	(56,690)	-	-	-
Interest	2,500	-	(2,500)	5,000	15,015	10,015
Miscellaneous	-	-	-	17,000	19,748	2,748
Total revenues	<u>178,180</u>	<u>118,990</u>	<u>(59,190)</u>	<u>22,000</u>	<u>34,763</u>	<u>12,763</u>
EXPENDITURES:						
Current:						
General government	182,397	224,135	(41,738)	22,000	-	22,000
Total expenditures	<u>182,397</u>	<u>224,135</u>	<u>(41,738)</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Net change in fund balances	<u>(4,217)</u>	<u>(105,145)</u>	<u>(100,928)</u>	<u>-</u>	<u>34,763</u>	<u>34,763</u>
Fund balances, July 1	<u>(162,500)</u>	<u>(162,500)</u>	<u>-</u>	<u>182,072</u>	<u>182,072</u>	<u>-</u>
Fund balances, June 30	<u>(166,717)</u>	<u>(267,645)</u>	<u>(100,928)</u>	<u>182,072</u>	<u>216,835</u>	<u>34,763</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, 2007

	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	98,000	98,000	79,980	(18,020)	40,000	40,000	406,056	366,056
Interest	-	-	-	-	20,000	20,000	89,847	69,847
Total revenues	98,000	98,000	79,980	(18,020)	60,000	60,000	495,903	435,903
EXPENDITURES:								
Current:								
General government	84,960	84,960	84,960	-	-	-	-	-
Housing	-	-	-	-	2,449,803	2,449,803	191,261	2,258,542
Total expenditures	84,960	84,960	84,960	-	2,449,803	2,449,803	191,261	2,258,542
Net change in fund balances	13,040	13,040	(4,980)	(18,020)	(1,989,803)	(2,389,803)	304,642	2,694,445
Fund balances, July 1	66,409	66,409	66,409	-	1,534,254	1,534,254	1,534,254	-
Fund balances, June 30	79,449	79,449	61,429	(18,020)	(455,549)	(855,549)	1,838,896	2,694,445

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, 2007

	911 REVENUE			Variance With Final Budget - Positive (Negative) \$
	Budgeted Amounts		Actual	
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Licenses, permits and fees	431,600	431,600	415,571	(16,029)
Interest	-	-	-	-
Total revenues	431,600	431,600	415,571	(16,029)
EXPENDITURES:				
Current:				
General government	-	-	595	(595)
Total expenditures	-	-	595	(595)
Excess (deficiency) of revenues over (under) expenditures	431,600	431,600	414,976	(16,624)
OTHER FINANCING SOURCES (USES):				
Transfers out	(431,600)	(431,600)	(431,600)	-
Total other financing sources (uses)	(431,600)	(431,600)	(431,600)	-
Net change in fund balances	-	-	(16,624)	(16,624)
Fund balances, July 1	1,761	1,761	1,761	
Fund balances, June 30	1,761	1,761	(14,863)	(16,624)

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, 2007

	GENERAL			REDEVELOPMENT			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget - Positive (Negative)
REVENUES:							
Interest	-	-	36,822	5,738,330	5,738,330	6,896,290	1,157,960
Special assessment	129,291	129,291	153,164	12,000	12,000	291,767	279,767
Total revenues	129,291	129,291	189,986	5,750,330	5,750,330	7,188,057	1,437,727
EXPENDITURES:							
Debt service:							
Principal	1,025,448	1,025,448	1,035,715	720,170	720,170	678,836	41,334
Interest and fiscal charges	396,880	396,880	424,764	2,639,487	2,639,487	3,118,073	(478,586)
Total expenditures	1,422,328	1,422,328	1,460,479	3,359,657	3,359,657	3,796,909	(437,252)
Excess (deficiency) of revenues over (under) expenditures	(1,293,037)	(1,293,037)	(1,270,493)	2,390,673	2,390,673	3,391,148	1,000,475
OTHER FINANCING SOURCES (USES):							
Transfers in	1,293,509	1,293,509	1,299,159	598,878	598,878	586,093	(12,785)
Transfers out	-	-	-	(2,140,122)	(2,140,122)	(3,864,670)	(1,724,548)
Total other financing sources (uses)	1,293,509	1,293,509	1,299,159	(1,541,244)	(1,541,244)	(3,278,577)	(1,737,333)
Net change in fund balance	472	472	28,666	849,429	849,429	112,571	(736,858)
Fund balance, July 1	796,319	796,319	796,319	3,593,028	3,593,028	3,593,028	-
Prior period adjustments	-	-	-	-	-	(34,868)	(34,868)
Fund balance July 1, as restated	796,319	796,319	796,319	3,593,028	3,593,028	3,558,160	(34,868)
Fund balance, June 30	796,791	796,791	824,985	4,442,457	4,442,457	3,670,731	(771,726)

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2007

	2007	2006
	\$	\$
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	15,150,614	15,013,810
Buildings and improvements	34,435,155	32,967,345
Machinery and equipment	11,342,593	10,395,595
Infrastructure	23,459,548	23,459,548
Construction in progress	67,135,231	37,381,561
	<u>151,523,141</u>	<u>119,217,859</u>
Total Governmental Funds Capital Assets		
INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE		
General fund	87,992,366	64,454,888
Redevelopment agency funds	20,430,488	11,662,684
Other special revenue funds	38,989,559	38,989,559
Capital leases	4,110,728	4,110,728
	<u>151,523,141</u>	<u>119,217,859</u>
Total Governmental Funds Capital Assets		

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2007

Function and Activity	Land	Buildings	Improvements	Machinery and Equipment	Infrastructure	Construction in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
City Manager	-	-	70,000	13,253	-	-	83,253
City Clerk	-	-	-	135,583	-	-	135,583
Community Develop.	-	-	-	138,444	-	-	138,444
Finance	-	-	-	470,189	-	-	470,189
Fire	-	778,870	239,675	2,377,799	-	-	3,396,344
Housing	817,547	523,101	258,183	14,333	-	18,822,487	20,435,651
Library	-	1,823,244	80,600	3,238,323	-	8,638,986	13,781,153
Nondepartmental	14,333,067	10,213,607	5,183,224	186,297	-	-	29,916,195
Parks and Recreation	-	3,830,656	3,497,576	1,059,303	-	1,833,030	10,220,565
Police	-	2,625,196	189,800	2,521,196	-	-	5,336,192
Public Works	-	2,372,364	2,749,059	1,187,873	23,459,548	37,840,728	67,609,572
Total Governmental Funds Capital Assets	15,150,614	22,167,038	12,268,117	11,342,593	23,459,548	67,135,231	151,523,141

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, 2007

Function and Activity	Capital Assets Assets June 30, 2006	Additions	Deletions	Capital Assets Assets June 30, 2007
	\$	\$	\$	\$
City Manager	83,253	-	-	83,253
City Clerk	135,583	-	-	135,583
Community Develop.	146,477	-	(8,033)	138,444
Finance	199,238	270,951	-	470,189
Fire	3,094,236	449,538	(147,430)	3,396,344
Housing	11,789,470	8,646,181	-	20,435,651
Library	12,745,537	1,035,616	-	13,781,153
Nondepartmental	28,617,393	1,329,263	-	29,946,656
Parks and Recreation	9,319,885	932,250	(31,570)	10,220,565
Police	5,440,652	207,164	(311,624)	5,336,192
Public Works	<u>47,646,135</u>	<u>20,271,606</u>	<u>(338,630)</u>	<u>67,579,111</u>
Total Government Funds Capital Assets	<u><u>119,217,859</u></u>	<u><u>33,142,569</u></u>	<u><u>(837,287)</u></u>	<u><u>151,523,141</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	107
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	139
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 Six Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)**

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	\$	\$	\$	\$	\$	\$
Governmental activities						
Investment in capital assets, net of related debt	44,759	43,902	48,309	47,962	59,561	90,258
Restricted	9,967	11,427	19,282	19,237	26,448	28,461
Unrestricted	8,455	12,862	13,016	17,581	12,472	12,221
Total governmental activities net assets	63,181	68,191	80,607	84,780	98,481	130,940
Business-type activities						
Investment in capital assets, net of related debt	35,105	36,224	38,332	41,633	44,913	55,569
Restricted	-	-	-	-	2,471	2,572
Unrestricted	30,732	33,118	35,905	34,171	32,945	38,495
Total business-type activities net assets	65,837	69,342	74,237	75,804	80,329	96,636
Primary government						
Investment in capital assets, net of related debt	79,864	80,126	86,641	89,595	104,474	145,827
Restricted	9,967	11,427	19,282	19,237	28,919	31,033
Unrestricted	39,187	45,980	48,921	51,752	45,417	50,716
Total primary government net assets	129,018	137,533	154,844	160,584	178,810	227,576

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

CITY OF WATSONVILLE, CALIFORNIA

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

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

Continued

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	\$	\$	\$	\$	\$	\$
Net (expense) / revenue						
Governmental activities	(22,741)	(24,138)	(19,444)	(27,362)	(23,097)	(5,533)
Business-type activities	1,390	2,578	3,180	2,005	3,072	8,224
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>
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
Sales taxes	7,667	8,087	8,298	8,446	9,786	10,202
Franchise taxes	1,288	1,101	1,064	1,115	428	183
Motor/vehicle taxes	3,035	3,806	2,262	1,142	1,268	1,251
Utility users taxes	2,760	2,775	2,678	2,733	2,840	2,966
Other taxes	1,093	734	1,937	1,192	927	1,006
Unrestricted investment earnings	1,660	1,020	926	1,257	1,206	1,635
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>
Business-type activities:						
Unrestricted investment earnings	1,446	1,049	724	1,097	1,346	2,165
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>
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>
Change in net assets						
Governmental activities	4,566	4,456	9,883	5,238	13,817	32,850
Business-type activities	2,836	3,628	3,905	3,102	4,418	10,389
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>

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 Six Fiscal Years**

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

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

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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Reserved	5,310	4,123	4,722	4,758	4,183	3,859	3,921	5,326	6,099	6,035
Unreserved	1,298	4,199	6,178	6,812	5,973	7,089	7,139	2,979	-	949
Total general fund	6,608	8,322	10,900	11,570	10,156	10,948	11,060	8,305	6,099	6,984
All other governmental funds										
Reserved	6,893	7,541	6,870	2,020	2,651	2,845	3,273	14,382	7,687	11,977
Unreserved, reported in										
Special revenue funds	7,222	7,756	8,634	10,406	6,504	8,308	13,290	24,446	23,419	3,375
Debt service funds	1,755	811	792	919	812	813	32,230	5,736	4,389	4,496
Total all other governmental funds	15,870	16,108	16,296	13,345	9,967	11,966	48,793	44,564	35,495	19,848

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Taxes	17,633	18,349	20,511	22,992	25,055	27,508	27,961	31,343	34,572	36,748
Licenses, permits, and fees	2,629	5,298	4,099	3,111	2,151	4,545	10,880	5,911	7,678	6,649
Intergovernmental	5,563	5,168	5,323	4,437	5,538	6,111	8,051	11,799	14,937	13,171
Charges for services	2,802	2,695	2,652	2,693	2,522	2,715	2,953	2,807	3,144	2,083
Fines	231	472	423	386	431	206	547	478	564	466
Interest	1,266	1,503	1,795	2,449	1,650	1,333	1,318	2,529	2,821	3,534
Special assessment	59	217	236	110	68	91	83	83	419	153
Miscellaneous	1,281	1,232	742	452	1,644	1,190	1,466	2,160	1,044	2,219
Total revenues	31,464	34,934	35,781	36,630	39,059	43,699	53,259	57,110	65,179	65,023
Expenditures										
Current:										
General government	8,259	9,238	9,454	10,057	10,550	10,273	9,993	11,483	10,636	10,502
Public safety	9,204	9,802	10,172	11,479	12,681	13,206	14,728	17,024	17,987	19,275
Housing	2,209	1,971	1,831	1,932	4,228	2,042	2,704	6,901	4,575	4,370
Streets	1,323	1,426	1,421	1,276	1,510	2,492	2,776	2,964	3,666	3,883
Culture and recreation	2,227	2,261	2,413	2,733	3,813	3,886	4,112	4,402	4,449	4,033
Capital outlay	7,257	6,197	7,568	6,011	10,058	7,911	11,317	17,591	29,609	32,252
Debt service:										
Principal	1,817	482	1,085	528	730	602	629	2,025	1,514	1,715
Interest and fiscal charges	734	818	746	895	1,008	1,079	1,681	1,344	3,902	3,543
Bond issuance costs	-	-	-	-	-	-	692	-	-	-
Total expenditures	33,030	32,195	34,690	34,911	44,578	41,491	48,632	63,734	76,338	79,573
Excess (deficiency) of revenues over (under) expenditures	(1,566)	2,739	1,091	1,719	(5,519)	2,208	4,627	(6,624)	(11,159)	(14,550)

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Other financing sources (uses)										
Sale of fixed assets	-	-	1,435	18	524	5	440	-	-	-
Bond proceeds	400	-	-	205	-	30	33,698	738	-	179
Payment to defease bonds	-	-	-	-	-	-	(1,819)	-	-	-
Operating transfers in	5,323	5,626	5,145	4,323	4,024	5,621	5,217	7,536	7,827	10,550
Operating transfers out	(5,356)	(5,626)	(5,088)	(4,077)	(4,024)	(5,621)	(5,217)	(7,536)	(7,827)	(10,550)
Total other financing sources (uses)	367	-	1,492	469	524	35	32,319	738	-	179
Net change in fund balances	(1,199)	2,739	2,583	2,188	(4,995)	2,243	36,946	(5,886)	(11,159)	(14,371)

Debt service as a percentage of noncapital expenditures 11.0% 5.3% 7.2% 5.2% 5.3% 5.3% 6.7% 7.9% 13.1% 12.5%

CITY OF WATSONVILLE, CALIFORNIA

**General Governmental Tax Revenues By Source
Last Ten Fiscal Years**
(modified accrual basis of accounting)
(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Property Tax</u> \$	<u>Sales Tax</u> \$	<u>Franchise Tax</u> \$	<u>Motor/Vehicle Tax</u> \$	<u>Utility User Tax</u> \$	<u>Other Tax</u> \$	<u>Total</u> \$
1998	6,343	5,356	816	1,529	2,575	1,014	17,633
1999	6,977	5,751	794	1,638	2,715	474	18,349
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

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			Industrial Property	Other Property	Unsecured Property	Less:		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 (3)	Property				Tax Exempt Real Property	Property				
1998	1,095,236	289,896	N/A	166,271	N/A	80,542			1,470,861	1.15	2,345,871	0.63
1999	1,154,120	302,853	N/A	162,748	N/A	84,273			1,535,448	1.12	2,448,880	0.63
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	37,790,373	0.06
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

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
1998	1.00000	0.014	0.136	1.15000
1999	1.00000	0.007	0.116	1.12300
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

Source: City of Watsonville - Accounts Payable Department

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2007

	2007			2003		
	Taxable Assessed Value \$	Rank	Percentage of Total Taxable Assessed Value %	Taxable Assessed Value \$	Rank	Percentage of Total Taxable Assessed Value %
Watsonville Hospital Corp.	57,038	1	1.72	51,963	1	3.52
S. Martinelli Co.	28,628	2	0.87	19,407	2	1.32
Granite Construction Co.	19,273	3	0.58	19,300	3	1.31
Birds Eye Foods Inc.	18,975	4	0.57			
Hd Development of Maryland Inc	17,140	5	0.52			
Watsonville Square Llc	13,979	6	0.42	12,932	7	0.88
Casade Properties Llc	13,845	7	0.42			
Meadows Mobile Manor Llc	13,355	8	0.40			
Albertsons Inc.	12,969	9	0.39	13,840	6	0.94
Longview Development Corp.	12,378	10	0.37			
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
Freedom Centre Properties LP				11,284	10	0.77
Totals	207,580		6.26	185,243		12.52

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
	\$	\$	\$	\$
1998	2,236,104	-	1,827,527	4,063,631
1999	2,559,209	-	1,840,076	4,399,285
2000	2,852,662	3,643	1,804,098	4,660,403
2001	2,796,039	-	1,695,895	4,491,934
2002	2,940,756	-	2,139,876	5,080,632
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	4,744,302	-	3,288,883	8,033,185

General Taxes do 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			
	\$	\$	\$	\$	\$	\$	\$		
1998	5,475	422	240	26,705	1,870	1,340	36,052	7.93%	0.970
1999	4,964	526	210	25,785	1,941	4,116	37,542	7.58%	1.001
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	1.098

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 137 for the personal income and population data.

CITY OF WATSONVILLE, CALIFORNIA

**Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years**

(amounts expressed in thousands, except per capita amount)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u> \$	<u>Less: Amounts Available in Debt Service Fund</u> \$	<u>Total</u> \$	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u> \$
1998	35,630	1,060	34,570	1.47%	108
1999	37,016	110	36,906	1.51%	102
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

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 115 for estimated actual property value data.

Population data can be found in the Schedule of Demographic and Economic Statistics on page 137.

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 55,157	\$ 57,577	\$ 65,069	\$ 65,465	\$ 68,357	\$ 87,262	\$ 96,175	\$ 112,437	\$ 118,450	\$ 118,487
Total net debt applicable to limit	4,415	4,854	3,891	3,317	4,408	3,970	29,213	27,296	27,301	26,494
Legal debt margin	<u>50,742</u>	<u>52,723</u>	<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>

Total net debt applicable to the limit as a percentage of debt limit

8.004%	8.430%	5.980%	5.067%	6.448%	4.550%	30.375%	24.277%	23.049%	22.360%
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Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$3,307,086
Add back: exempt real property	<u>147,425</u>
Total assessed value	<u>3,159,661</u>
Debt Limit = 3.75% of assessed valuation	118,487
Debt applicable to limit	<u>27,290</u>
Less: Amount set aside for repayment of general obligation debt	796
Total net debt applicable to limit	<u>26,494</u>
Legal debt margin	<u>\$91,993</u>

CITY OF WATSONVILLE, CALIFORNIA

Historical and Projected Library Special Sales Tax Revenue

Fiscal Year	Gross Revenues
	\$
1998-99	1,456,107
1999-00	1,633,893
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	2,495,600

Library Certificates of Participation outstanding
as of 6-30-07 \$5,684,116.

Total Library revenues received from Measure B Taxes
as of 6/30/07 \$19,072,782.

* 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.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

Library Special Revenues Certificates of Participation Debt Service Coverage

Fiscal Year	Gross Revenues	Debt ** Service	Coverage
	\$	\$	
2003-04	2,113,456	1,047,694	201.72%
2004-05	2,286,127	1,047,694	218.21%
2005-06	2,698,198	1,047,694	257.54%
2006-07	2,758,601	1,047,694	263.30%
2007-08*	2,495,600	1,047,694	238.20%

* 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
	\$	\$	\$	\$	
1997-98	5,892,332	4,439,834	1,452,498	726,763	199.86%
1998-99	6,510,001	4,410,986	2,099,015	730,854	287.20%
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%

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

Debt service is for the next fiscal year.

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	(1) Gross Revenues	(2) Direct Operating Expenses	Net Revenues available for Debt Service	(3) Debt Service	Coverage
	\$	\$	\$	\$	
2007-08	12,899,714	6,567,621	6,332,093	735,000	861.51%
2008-09	12,899,714	6,698,973	6,200,741	735,000	843.64%
2009-10	12,899,714	6,832,953	6,066,761	735,000	825.41%
2010-11	12,899,714	6,969,612	5,930,102	735,000	806.82%
2011-12	12,899,714	7,109,004	5,790,710	735,000	787.85%

(1) Based on total actual 2006-07 water revenues, less payment for future water sales of 6,340,758.

(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 Revenue
For Fiscal Year 2006-07**

User	Revenues	Percentage of Total
	\$	%
1 Martinelli & Company	152,654	2.03
2 Pajaro Valley Unified School District	52,362	0.69
3 Sunny Meadow Apartments	45,158	0.60
4 Meadows Manor Apartments	46,830	0.62
5 Pinto Lake Mobile Estates	44,691	0.59
6 Farmer's Processing	40,742	0.54
7 Farmer's Cold Storage	32,705	0.43
8 Francis Property MTMT Inc.	30,359	0.40
9 H A Rider and Son	29,458	0.39
10 Green Valley Village	26,017	0.35
Total Top Ten	<u>500,976</u>	<u>6.65</u>
Total Revenues	<u><u>7,534,162</u></u>	<u><u>100.00</u></u>

Source: City of Watsonville, Water Department

CITY OF WATSONVILLE, CALIFORNIA

**Water Service Accounts
For The Last Ten Calendar Years**

Year	Single/Multiple Family Residential	Commercial	Industrial	Other	Totals
1997	10,887	1,047	55	625	12,614
1998	10,931	1,067	56	652	12,706
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

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

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

Calendar Year	Gallons Delivered (1)
1997	2,317.5
1998	2,163.7
1999	2,371.7
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

(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
	\$	\$	\$	\$	
1997-98	6,366,967	2,967,722	3,399,245	758,782	447.99%
1998-99	6,604,183	3,506,581	3,097,602	764,162	405.36%
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%

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
For The Next Five Fiscal Years**

Fiscal Year	(1)	(2)	Net Revenues available for Debt Service	Debt Service	Coverage
	Gross Revenues	Direct Operating Expenses			
	\$	\$	\$	\$	
2007-08	8,251,547	6,567,621	1,683,926	766,381	219.72%
2008-09	8,251,547	6,698,973	1,552,574	766,381	202.59%
2009-10	8,251,547	6,832,953	1,418,594	766,381	185.10%
2010-11	8,251,547	6,969,612	1,281,935	766,381	167.27%
2011-12	8,251,547	7,109,004	1,142,543	766,381	149.08%

(1) Based on total actual 2006-07 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
For Fiscal Year 2006-07**

User	Revenues	Percentage Of Total
	\$	
1 Del Mar Foods, Inc.	488,172	7.37%
2 Martinelli & Co.	359,920	5.43%
3 Birds Eye Foods Inc.	261,600	3.95%
4 Indalex West Inc.	176,304	2.66%
5 D & G Sanitation Septic	119,808	1.81%
6 Al's Septic	72,553	1.10%
7 Mizkan Americas Inc	70,446	1.06%
8 Cascade Properties Inc.	53,605	0.81%
9 JGPG Corporation Inc	41,621	0.63%
10 Farmers Processing	38,060	0.57%
Total Top Ten	<u>1,682,089</u>	<u>25.39%</u>
Total Revenues	<u><u>6,624,452</u></u>	<u><u>100.00%</u></u>

Source: City of Watsonville, Public Works Department

CITY OF WATSONVILLE, CALIFORNIA

**Sewer Service Accounts
For the Last Ten Calendar Years**

Year	Single/Multiple Family Residential	Commercial	Industrial	Other	Totals
1997	7,360	897	55	328	8,640
1998	7,387	916	56	343	8,702
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

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
	\$	\$	\$	\$	
1997-98	5,152,343	3,503,989	1,648,354	770,765	213.86%
1998-99	5,037,483	3,711,876	1,325,607	769,096	172.36%
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%

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
For The Next Five Fiscal Years**

Fiscal Year	Gross (1) Revenues	Direct (2) Operating Expenses	Net Revenues available for Debt Service	Debt Service	Coverage
	\$	\$	\$	\$	
2007-08	8,654,426	6,893,160	1,761,266	777,818	226.44%
2008-09	8,654,426	7,031,023	1,623,403	777,818	208.71%
2009-10	8,654,426	7,171,644	1,482,782	777,818	190.63%
2010-11	8,654,426	7,315,077	1,339,349	777,818	172.19%
2011-12	8,654,426	7,461,378	1,193,048	777,818	153.38%

(1) Based on actual solid waste revenues for fiscal year ending June 30, 2007.

(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
For The Fiscal Year 2006-07**

User	Revenues	Percentage of Total
	\$	%
1 Pajaro Valley Unified School District	143,953	1.75
2 Martinelli and Company	70,623	0.86
3 Medow Manor	60,963	0.74
4 Sunny Meadow Apartments	52,099	0.63
5 Fox Factory Inc.	49,719	0.60
6 North Gate Apts.	43,034	0.52
7 Rancho Cerritos	41,271	0.50
8 Stone Creek Apartments	39,146	0.50
9 Pajaro Hills Retail LLC	34,781	0.48
10 Couch Distributing Co LLC	34,562	0.42
Total Top Ten	<u>570,151</u>	<u>7.01</u>
Total Revenues	<u><u>8,228,487</u></u>	<u><u>100.00</u></u>

Source: City of Watsonville, Public Works Department

CITY OF WATSONVILLE, CALIFORNIA

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

Calendar Year	Solid Waste Deposits (tons)
1996	29,965
1997	27,972
1998	29,375
1999	30,780
2000	30,494
2001	31,964
2002	30,029
2003	35,133
2004	37,953
2005	40,938
2006	42,789

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>
1998	37,165	454,681	12,252	N/A	20,913	14.50%
1999	37,502	495,214	13,205	N/A	21,458	13.10%
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%

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>2007</u>			<u>1998</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	2,182	1	12.54%	1,990	1	12.09%
Watsonville Community Hospital	707	2	4.06%	750	2	4.55%
City of Watsonville *	473	3	2.72%	225	7	1.37%
Fox Factory	300	4	1.72%	-		
S Martinelli & Co.	254	5	1.46%	-		
Target	211	6	1.21%	-		
Granite Construction Company	200	7	1.15%	418	5	2.54%
HOME Depot	184	8	1.06%	-		
Couch Distributing	160	9	0.92%	-		
Salud Para La Gente	160	10	0.92%	-		
Dean Food	-			500	3	3.04%
Graniterock Company	-			418	4	2.54%
SCI Systems	-			320	6	1.94%
Skyway Freight Systems, Inc.	-			250	8	1.52%
West Marine Products	-			225	9	0.01
Hadco	-			213	10	1.29%
Total	<u><u>4,831</u></u>		<u><u>27.76%</u></u>	<u><u>5,309</u></u>		<u><u>32.24%</u></u>

* Full time equivalent employees

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

CITY OF WATSONVILLE, CALIFORNIA

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

Function	Full-time Equivalent Employees as of July 1									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government	9.50	9.50	12.00	12.00	12.00	* 18.50	18.50	18.50	19.00	*** 11.50
Community Development	14.00	14.00	15.50	16.50	* 16.50	17.50	17.50	17.50	19.50	*** 17.00
Finance	20.75	20.75	20.75	20.75	24.00	17.00	17.00	17.00	17.00	23.75
Fire	28.75	31.50	32.75	32.75	36.75	35.75	35.00	35.00	35.00	36.00
Police										
Officers	60.00	63.00	65.00	67.00	67.00	67.00	64.00	64.00	64.00	72.00
Civilians	15.00	12.00	15.50	21.00	21.00	21.00	24.50	24.50	24.50	20.00
Library	11.75	11.75	17.75	21.50	21.50	25.75	25.75	25.75	25.50	25.50
Parks & Community Services	23.25	23.50	26.25	26.25	30.50	** 35.75	35.75	35.75	36.75	36.50
Public Works	21.75	21.75	17.75	25.25	25.25	26.00	26.00	26.00	26.00	26.00
Airport	5.25	4.25	4.75	4.75	** 4.75	4.75	4.75	4.50	4.50	6.50
Enterprise Community	2.00	3.00	3.00	3.00	** 2.00	-	-	-	-	-
Neighborhood Services	-	-	1.00	2.00	2.00	-	-	-	-	-
LLMAD	-	-	-	-	-	-	-	-	1.00	1.00
Parking Garage	-	-	-	-	0.05	0.05	0.05	0.05	2.05	2.05
Redevelopment and Housing	7.00	7.00	10.00	11.00	10.95	9.45	9.95	9.95	9.95	6.95
Solid Waste	21.00	21.00	24.80	28.40	28.40	31.00	31.00	31.00	33.00	36.40
Wastewater	34.00	34.00	34.00	34.00	34.00	33.00	33.00	36.00	36.00	35.00
Water	22.00	23.00	23.00	21.00	21.00	24.00	24.00	24.00	25.00	25.00
	<u>296.00</u>	<u>300.00</u>	<u>323.80</u>	<u>347.15</u>	<u>357.65</u>	<u>366.50</u>	<u>366.75</u>	<u>369.50</u>	<u>378.75</u>	<u>381.15</u>

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

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

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

Source: City of Watsonville's Biennial Budget documents.

CITY OF WATSONVILLE, CALIFORNIA

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government:										
City Council meetings	24	26	25	25	21	25	25	24	27	24
Resolutions processed	360	340	365	386	315	384	385	320	249	311
Recruitments	34	38	44	44	53	27	31	43	25	42
Community Development:										
Planning application reviews	221	203	205	207	345	400	500	520	425	486
Construction inspections	n/a	n/a	6,161	6,352	3,204	4,548	13,225	9,006	7,000	6,208
Building Permits	639	635	779	600	835	1,184	1,239	918	1,160	978
Finance:										
Payroll checks issued	10,250	10,500	11,842	10,024	12,947	12,917	13,733	13,548	12,980	12,188
Utility accounts	12,565	12,500	13,152	13,175	13,280	13,091	13,274	14,035	14,433	14,466
A/P checks issued	7,967	8,149	8,184	7,978	8,864	9,336	9,063	9,155	9,198	9,560
Fire:										
Field incidents dispatched	2,605	2,681	2,779	3,206	3,312	3,312	3,354	3,065	3,367	3,459
Library:										
Items used/checked out	315,097	318,000	320,411	322,000	351,136	342,476	379,332	385,010	390,000	337,018
Parks & Community Services:										
Facility Drop In Totals	N/A	N/A	3,576	3,336	2,620	1,768	1,364	1,494	1,187	1,524
Police:										
Moving and Parking Citations	5,247	10,406	10,681	11,271	12,372	12,366	13,248	14,387	16,567	15,926
Service Calls Dispatch	n/a	58,365	60,717	55,659	57,183	62,000	57,667	54,819	58,559	61,745
URC Crime Rate	74	59	49	42	48	48	50	43	46	46
(# crimes/1,000 population, calendar years)										
Wastewater:										
Annual volume of septage treated (in million gallons)	8.43	8.43	8.43	7.62	7.62	7.62	7.62	9.62	9.62	4.90
Water:										
Water production (acre feet)	7,136	7,571	6,323	7,615	7,683	7,588	7,804	7,574	7,915	8,481
Solid Waste:										
Refuse handled (tons)	26,000	26,000	31,400	31,400	31,965	30,029	35,133	37,935	42,789	39,334
Recycled material (tons)	4,004	4,004	4,004	4,004	5,526	4,632	5,305	5,540	5,554	5,560

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
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	14	14	16	16	18	18	18	18	18	19
Patrol motorcycles	2	2	2	2	4	4	5	5	5	5
Library:										
Buildings	1	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	17	17	17	17	17	17	21	21	21	24
Acreeage of parks	62.5	62.5	62.5	62.5	62.5	62.5	65.0	65.0	65.0	85.0
Community Centers	4	4	4	4	5	5	5	5	6	6
Public Works:										
Miles of streets	83	83	83	83	83	85	85	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	19.6	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	7.0	6.3
Solid Waste:										
Collection trucks	n/a	n/a	12	13	13	13	13	13	13	20

Source: City of Watsonville departments

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