



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended
June 30, 2017



City of Watsonville, California

City of Watsonville, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Prepared by the Finance Department
Cindy Czerwin, Administrative Services Director



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CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2017

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INTRODUCTORY SECTION



City of Watsonville

"A Community of Opportunities"

January 12, 2018

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

REPORT PURPOSE AND ORGANIZATION

We are pleased to present the City of Watsonville's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. The CAFR is intended to present information above, what is required by generally accepted accounting principles and State law.

The Charter of the City of Watsonville and the State of California law require that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (U.S.GAAP). The report should also be audited by an independent firm of certified public accountants (CPA) in accordance with generally accepted government auditing standards (GAGAS). Pursuant to the requirements, we hereby issue the comprehensive annual financial report of the City of Watsonville for the fiscal year ended June 30, 2017.

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

Audited Financial Statements

Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Watsonville's financial statements for the fiscal year ending June 30, 2017. A copy of this report is included in page 15 in the Financial Section of this report.

The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2017, 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 also incorporates a broader, federally mandated **Single Audit Uniform Guidance** 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.

CITY OF WATSONVILLE PROFILE

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 53,796 people as of July 1, 2016.

Watsonville became a charter City government in 1908. Policymaking and legislative authority are vested in the governing City Council, which consists of seven Council Members, one of whom serves as mayor. The mayor is appointed on sequential basis from each of the numbered City Council districts and serves for a term of one year. The council is elected on a non-partisan basis from seven electoral districts. Council members are elected to four-year terms. Elections are staggered with four Council Members elected during one election and three Council Members elected in the following election two years later. The governing City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's City Manager, City Clerk, and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the department heads.

City Services

The City of Watsonville provides a full range of services including police and fire protection; water treatment and distribution; solid waste collection and landfill

disposal; sanitary sewer collection and treatment services; airport facilities; building inspection, planning, economic development, housing rehabilitation, and general government services; library services; recreational services; parks; street construction and maintenance; and general administration.

The financial reporting entity of the City includes all the funds of the City of Watsonville, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The Successor Agency of the City of Watsonville Redevelopment Agency's information in this year's financial report is presented separately as part of the fiduciary statements. Additional information can be found on this entity starting on page 90 within the notes to the financial statements.

Budgetary Process and Controls

The annual budget serves as the foundation for the City of Watsonville's financial planning and control. All departments of the City of Watsonville are required to submit requests for appropriations to the government's management on or before March 31 of each fiscal year. The Finance Department uses these requests as a starting point for developing a proposed budget. The Finance Department 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 (i.e. General Fund, Water), department (i.e., police), and division (i.e., investigation).

Department directors may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The general fund, impact fee fund, housing fund, and redevelopment and housing grants fund comparisons are presented on pages 38 to 41 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 101.

FACTORS AFFECTING FINANCIAL CONDITON

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

Local Economy

The Pajaro Valley has a long tradition as an agricultural center. In the late 1800s, the area harvested staples such as wheat and sugar beets. In 1868, the same year Watsonville was incorporated, Martinelli's Sparkling Apple Cider was founded and

led the change for Watsonville to become a major food processing center. Agriculture has remained the heart of the Pajaro Valley through today, with the base shifting towards the production of strawberries and flowers. At the same time, various light manufacturing firms have expanded Watsonville's economic base to include electronics, high-tech, marine supplies, and construction, such as Applied Motion Products, CSC Group, West Marine, Fox Racing Shox, Annieglass, Granite Construction, and Granite Rock, biodiesel plant, and a FedEx regional shipping center which opened its doors in early 2016.

Economic conditions in Watsonville are heavily influenced by agriculture and the cost of housing. Santa Cruz County is consistently 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. This disparity is attributable to the high number of farm workers who live in the City. Incomes tend to be lower, leading to greater demands for affordable housing. Watsonville also tends to have a higher unemployment rate than other cities in the County. However, the average unemployment rate has improved over the past two fiscal years, dropping to 6.1%.

Watsonville was hit harder and longer by the great recession than much of the surrounding area. However, recent years show that Watsonville is reaching a stronger more sustainable position. For the first time in several years, the City of Watsonville is experiencing a season of measured and sustained economic growth, with increases in all of the City's major revenue sources, including sales tax, property tax, and departmental revenues. Certain revenue streams provide a supporting indication of how the local economy is doing. Property tax provides a glance of how strong housing prices are increasing or decreasing. Sales tax specifically is a good barometer of residential and visitor's ability to have and willingness to spend their resources. Community development (planning and building) fees provide a glimpse of what the development sector expects for demand in the near future.

Property Tax collections (excluding Redevelopment Property Taxes) hit a low in 2010-11 following the great recession and have been slowly recovering since. FY 2016-17 marks a new peak and a healthy 3% growth over 2015-16. There are a number of residential developments in construction at the moment including a 54 residential apartment complex project in the downtown area, 2 townhomes projects with a total of 69 units, other 87 units of mixed townhomes and single family homes project, and a 48 condominium units project, so we are expecting this positive trend to continue.

Sales tax revenues have been slowly climbing since a low point in 2010-11 and had a significant increase in FY 2015-16. However, sales tax collections in 2016-17 are essentially flat from the prior year. This revenue is likely to see changes in coming

years as more and more people shift away from brick and mortar shopping to online sales. However, we can anticipate that the housing development and commercial developments anticipated in future years will result in more people spending their time and money in Watsonville. As such we can anticipate seeing more growth in this major revenue source in the coming years.

Growth in community development fees has been lumpy but steady since a low in 2009-10. But in a sign of things to come in Watsonville, these fees increased by 35% in 2016-17 after only a nominal increase of 1% the prior year. New development growth has continued over the past decade. The 200,000 square foot FedEx distribution facility was completed in August 2016. Other new development that is assisting the community in forming a stronger economic base and thereby lowering unemployment was a new Kaiser medical office facility, Lakeside Organic Garden's 91,700 square foot cooler facility, a 20,000 square foot diesel repair and sales facility, and the redevelopment of a 10,000 square foot commercial project at 45 Aviation Way, which will include new restaurants and retail businesses in the airport area. Coming development within the City includes the following: La Quinta Inn on Main Street, another 4 story hotel, and the residential projects discussed above.

As part of economic development efforts, the City continues to actively seek out and plan for opportunities to spur local development and economic growth. The City will continue to work in beautification projects for downtown, and is supporting efforts to fill vacant retail space and drastically increase the City and surrounding region's broadband capacity.

In addition to the growth in property and sale tax revenues, the community approved increases for Utility User Tax, a Cannabis Tax and increased Transient Occupancy taxes (TOT) that increased General Fund revenues in 2016-17.

Utility user taxes are driven by consumer utility prices and demand. As utility usage is relatively inelastic, this revenue source remained relatively stable during the recession and grew in the years following. Normal increases in utility rates from higher energy prices and planned capital improvements to infrastructure have a corresponding increase in this tax. City voters recently adopted a new utility user tax ordinance which expanded the types of technologies which could be taxed. This combined with normal rate increases and population growth resulted in a 16% increase in this revenue in 2016-17.

The Cannabis Business Tax – Measure M imposes a tax on cannabis businesses in the City of Watsonville. As approved by the voters, 20% of its proceeds are to be used to pay for law enforcement and crime prevention services, 15% for fire services, 20% for community development, and 25% for parks and community services, 8% for City libraries, and 12% for non-profit and community services. Nominal collections were made in 2016-17 but this is expected to grow in future

years as Council has approved permits for both cultivation and manufacturing businesses.

Voters also approved an increased Transient Occupancy Tax which pushed that revenue to also reaching a new peak level with a 6% increase from the prior year. That rate increase along with the new hotels in development should lead to continued increases.

Long-term financial planning

Although the City's has seen revenues rebound, stabilize, and grow, there is still considerable risk for declines as recessions normally follow a cyclical pattern and the nation is in its 10th year of sustained growth following the Great Recession. The City is also facing continued significant increases in pension costs, as CalPERS (California Public Employees Retirement System) increases both the City's Unfunded Actuarial Liability (UAL) payments for past losses, and the normal cost of existing members going forward. These increases in pension costs will result in a total increase of approximately \$6,000,000 over the next 5 years and pose a serious threat to the City's financial health in the near and long-term. Combined with ongoing increases in health care costs, the City Council and staff will need to closely control expenditures and any increases to operations.

Furthermore, due to the years of sharp revenue declines and very slow growth the City has a large backlog of deferred infrastructure and capital needs. Many of the City's facilities are in poor condition and threaten our ability to effectively and safely provide services to the public. In addition, in order to keep pace with Watsonville's growing population and service demands, there is additional infrastructure needed to maintain core service levels throughout the community. Further, many of the City's fleet and patrol vehicles are over 10 years old, requiring additional maintenance and repairs. Unless funding for major capital projects is increased, the City will continue to face increasing maintenance costs and infrastructure failure. This is not a situation that is unique to Watsonville, many cities and state governments are struggling to keep-up with critical infrastructure needs, while maintaining service levels.

The FY 2017-18 and FY 2018-19 budgets were approved as balanced by the City Council and included negotiated raises for employees and staffing enhancements for departments for the first time in many years. Watsonville's financial outlook is positive. Nevertheless the City of Watsonville should remain cautious in its spending patterns, reducing our backlog of needs and planning and preparing for future costs both known and unknown so that with luck we can better manage future recessions and financial challenges.

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, 2016. This was the seventeenth 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 City has received the GFOA's Award for Distinguished Budget Presentation for its biennial budget dated June 9, 2015. 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 Administrative Services Manager, William P. Hays, CPA, who coordinated the audit. His leadership and dedication to the project is the major contributing factor to the City being rewarded with the Certificate of Achievement for the last seventeen years. Marissa Duran and Patricia Rodriguez, Financial Analysts, who maintain the City's general ledger, also deserve special recognition for their contribution to the report. The following remaining Finance Staff made this report possible through their dedicated service throughout the fiscal year: Marisa Bermudez, Ilda Estrada, Christine McGrath, Diana Rivas, Leticia Samano, and Mary Stepovich. The Mayor and the governing council should also be given due credit for their interest and support in managing the City of Watsonville in a responsible and progressive manner.

Respectfully submitted,

Administrative Services Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Watsonville
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

City of Watsonville, California

Officers and Officials

For the Fiscal Year Ended June 30, 2017

City Council:

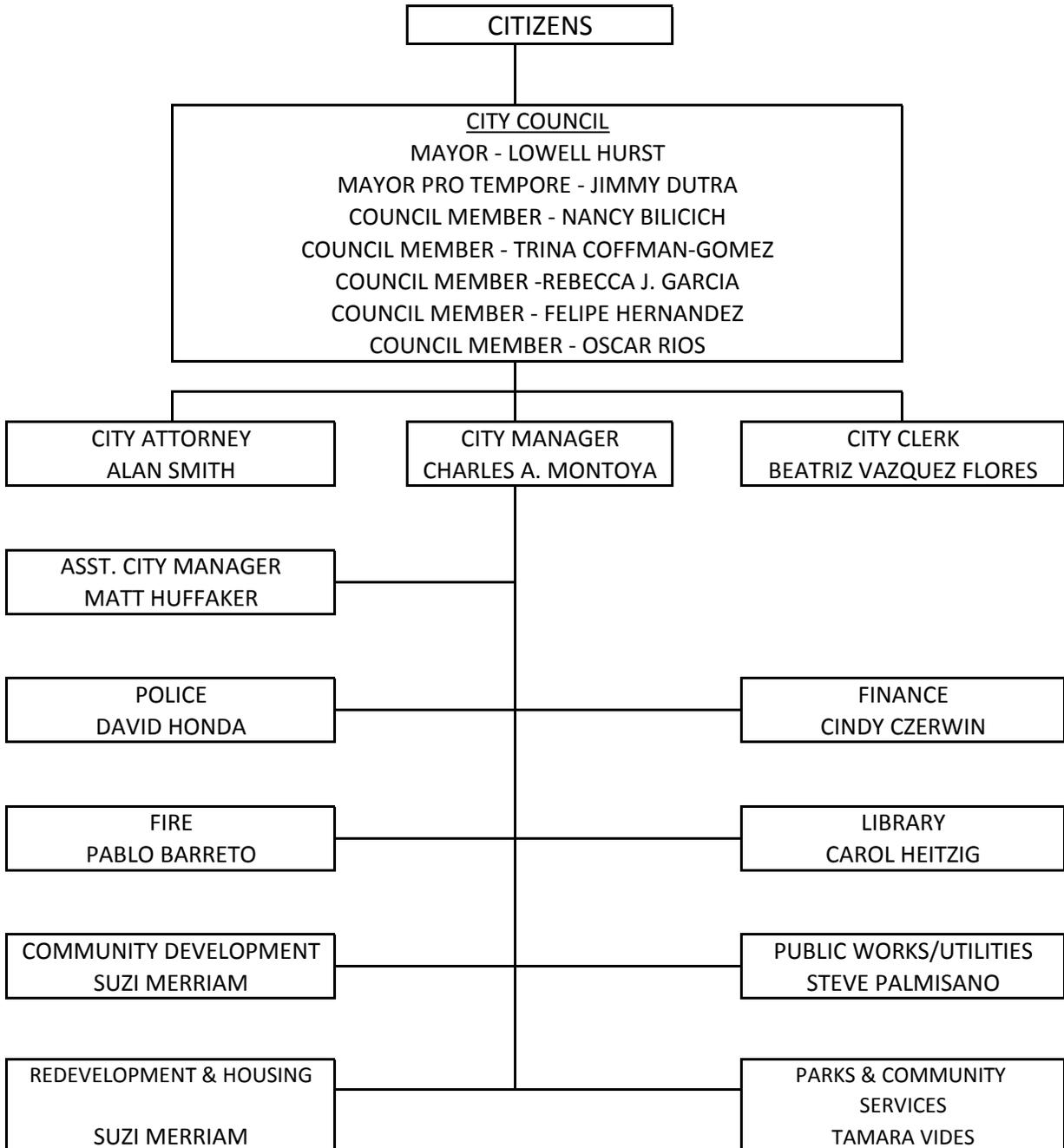
Mayor – Lowell Hurst
Mayor Pro Tempore – Jimmy Dutra
Council Member – Nancy Bilicich
Council Member – Trina Coffman-Gomez
Council Member – Rebecca J. Garcia
Council Member – Felipe Hernandez
Council Member – Oscar Rios

City Officials:

City Manager – Charles A. Montoya
Assistant City Manager – Matt Huffaker
City Clerk – Beatriz Vazquez Flores
Fire Chief – Pablo Barreto
Police Chief – David Honda
Public Works and Utilities Director – Steve Palmisano
Administrative Services Director – Cindy Czerwin
Library Director – Carol Heitzig
Interim Community Development Director – Suzi Merriam
Acting Parks and Community Development Services Director – Tamara Vides

WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE FISCAL YEAR 2016 - 2017



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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
City Council of the City of Watsonville, California

Report on Financial Statements

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, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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 and of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
January 12, 2018

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2 - 9 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Watsonville exceeded its liabilities at the close of the most recent fiscal year by \$226,016. There was a prior period adjustment of (\$64), with most of the adjustments to correct expenses to wrong funds in prior year.
- The City's total restated net position increased by \$8,462. Governmental activities net position increased by \$4,020, which most of this increase from increases in property taxes and sale taxes. Business type activities net position increased by \$4,442. Most of this increase was from Sewer and Water ending with positive operating incomes.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,293 an increase of \$1,158 in comparison with the prior fiscal year's restated balances. The non-spendable portion of the fund balance was \$2,965, the restricted portion was \$18,012 and the unassigned amount was \$5,317 a large portion of the unassigned fund balance was created by increases in taxes received by the general fund during fiscal year 2016-17.

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 basic 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 Position* presents information on all of the City of Watsonville's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as

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

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

The government-wide financial statements can be found on pages 30 to 33 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 three categories: governmental funds, proprietary funds and fiduciary fund.

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 sixteen 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, housing fund, redevelopment and housing grants fund, and general debt service fund which are all major funds. Data for the other eleven 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 34 to 41 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, Airport and Fiber Optic 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, airport and fiber optic 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 42 to 44 of this report.

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

The basic fiduciary fund financial statements can be found on pages 45 to 46.

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 94 of this report.

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information, combining statements and schedules referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 100 to 115 of this report.

Government-wide Financial Analysis

Statement of Net Position. As noted earlier, net position 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 \$226,016 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net position \$207,290 reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, work in progress, and infrastructure) less any related outstanding debt used to acquire those assets. The City of Watsonville uses these capital assets to provide services to citizens; consequently, these

assets are not available for future spending. Although the City of Watsonville’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Watsonville’s net position \$16,496 represent resources that are subject to external restrictions on how they may be used by creditors (such as through debt covenants), grantors, contributions or laws or regulations of other governments. The remaining balance of unrestricted net position \$2,230 is unrestricted and available for next year’s operations at the direction of the City Council.

City of Watsonville’s Net Position
June 30, 2017
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
Current and other assets	66,194	64,169	28,526	24,810	94,720	88,979
Capital assets	115,075	115,059	96,657	95,679	211,732	210,738
Total Assets	<u>181,269</u>	<u>179,228</u>	<u>125,183</u>	<u>120,489</u>	<u>306,452</u>	<u>299,717</u>
Deferred inflows of resources	12,846	6,758	3,943	3,123	16,789	9,881
Total Deferred Resources	<u>12,846</u>	<u>6,758</u>	<u>3,943</u>	<u>3,123</u>	<u>16,789</u>	<u>9,881</u>
Long-term liabilities outstanding	59,701	49,880	23,463	20,363	83,164	70,243
Other Liabilities	6,753	8,603	2,968	2,428	9,721	11,031
Total Liabilities	<u>66,454</u>	<u>58,483</u>	<u>26,431</u>	<u>22,791</u>	<u>92,885</u>	<u>81,274</u>
Deferred outflows of resources	3,203	7,127	1,137	3,579	4,340	10,706
Total Deferred Resources	<u>3,203</u>	<u>7,127</u>	<u>1,137</u>	<u>3,579</u>	<u>4,340</u>	<u>10,706</u>
Net Position:						
Net investment in capital assets	111,256	110,806	96,034	94,655	207,290	205,461
Restricted	16,496	16,754	-	-	16,496	16,754
Unrestricted	(3,294)	(7,184)	5,524	2,587	2,230	(4,597)
Total Net Position	<u>124,458</u>	<u>120,376</u>	<u>101,558</u>	<u>97,242</u>	<u>226,016</u>	<u>217,618</u>

At the end of the current fiscal year, the City of Watsonville is able to report positive balances in net investment in capital assets and restricted net position for the government as a whole, as well as for its separate governmental and business-type activities.

City of Watsonville
Summary of Changes in Net Position
For the Fiscal Year Ending June 30, 2017
(in thousands)

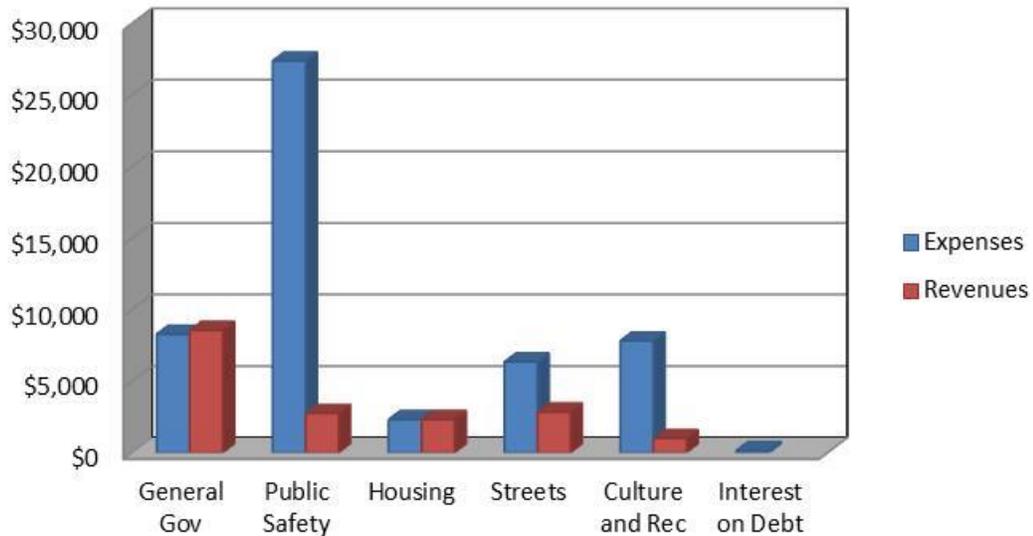
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	14,117	10,068	39,892	39,991	54,009	50,059
Operating grants and contributions	3,310	3,590	1,373	759	4,683	4,349
Capital grants and contributions	-	-	1,103	659	1,103	659
General Revenues						
Property taxes	13,300	12,846	-	-	13,300	12,846
Other taxes	22,025	21,788	-	-	22,025	21,788
Others	3,227	3,218	206	201	3,433	3,419
Total Revenues and Transfers	55,979	51,510	42,574	41,610	98,553	93,120
Expenses:						
General government	8,257	7,151	-	-	8,257	7,151
Public safety	27,381	27,751	-	-	27,381	27,751
Housing	2,318	1,389	-	-	2,318	1,389
Streets	6,348	3,043	-	-	6,348	3,043
Culture and recreation	7,817	8,613	-	-	7,817	8,613
Interest on debt	146	112	-	-	146	112
Water	-	-	13,851	15,537	13,851	15,537
Sewer	-	-	10,272	10,731	10,272	10,731
Solid waste	-	-	10,976	9,181	10,976	9,181
Airport	-	-	2,684	2,225	2,684	2,225
Fiber optic	-	-	41	8	41	8
Total Expenses	52,267	48,059	37,824	37,682	90,091	85,741
Increase in net position before transfers	3,712	3,451	4,750	3,928	8,462	7,379
Internal balances	308	232	(308)	(232)	-	-
Change in net position	4,020	3,683	4,442	3,696	8,462	7,379
Net position - beginning	120,376	118,448	97,242	95,903	217,618	214,351
Prior year adjustments	62	(1,755)	(126)	(2,357)	(64)	(4,112)
Net position - beginning restated	120,438	116,693	97,116	93,546	217,554	210,239
Net position ending	124,458	120,376	101,558	97,242	226,016	217,618

Governmental Activities. Governmental activities increased the City of Watsonville's Net Position by a \$4,020. Key elements of this increase are as follows:

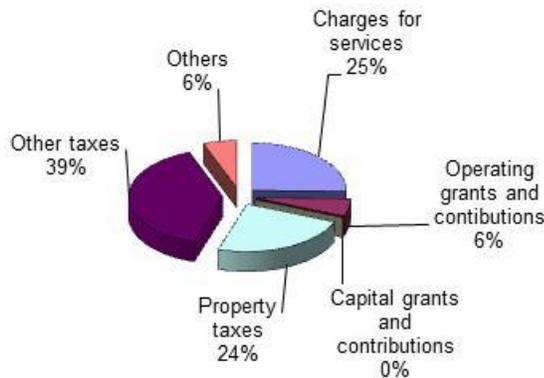
- Governmental revenues were greater than last year with increase in charges for services of \$4,049. Most of this increase was due to the internal service fund having a deficit in the prior fiscal year and having a gain of \$2,478 in the current fiscal year. Property taxes and other taxes increased by \$691 with the general fund receiving increases in property and sales tax revenues.
- Governmental expenses also increased by \$4,208. The majority of the increase was from the

streets expenses increasing \$3,305 over prior fiscal year. The City tries to save gas tax funds to every other year so that major maintenance projects can be done during the following year.

Expenses and Program Revenues Governmental Activities



Revenues by Source Governmental Activities



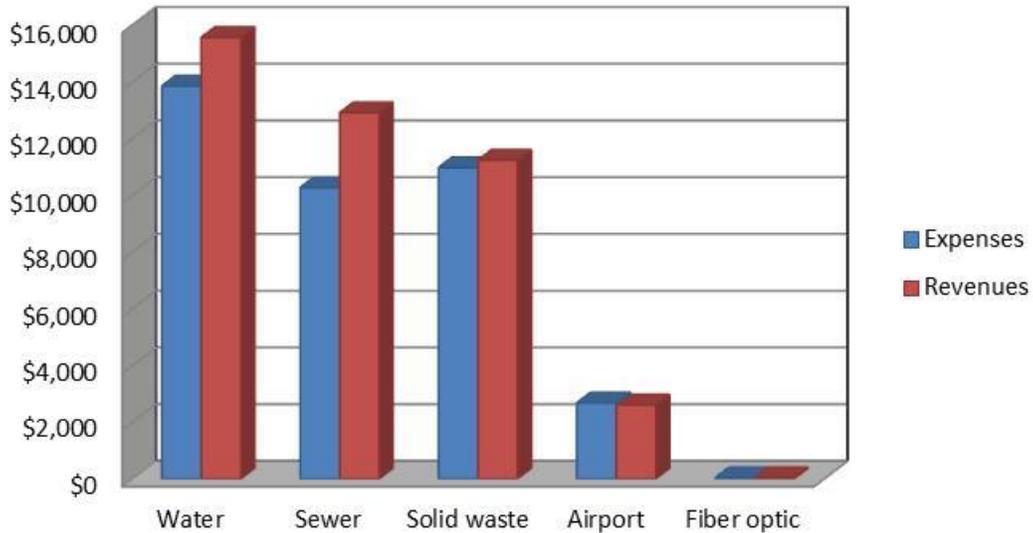
Expenses for general government, housing and interest on debt increased from prior year. The increase of general government was due increased construction activities throughout the City and the increase for housing was due to the costs increased due to CDBG grant activates increasing.

Culture and recreation and public safety costs decreased from the prior year. Culture and recreation costs decreased due to the library fund planned reduction in its spending budget.

Business-type activities. Business-type activities increased the City of Watsonville’s restated net position by \$4,442. Key elements of this increase are as follows:

Expenses and Program Revenues

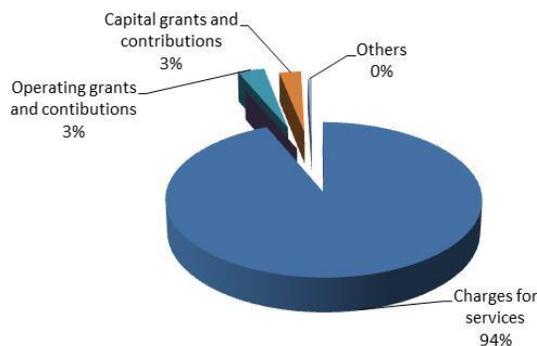
Business-type Activities



- Operating grants and contributions increased by \$614 and capital grants and contributions increased by \$444. The increase in grant revenues was due to both the Water and Sewer funds receiving reimbursements from local and state governmental agencies.
- Water, Solid Waste and Fiber Optic funds had increases in charges for services with rate increases approved by the City Council for the fiscal year 2016-17 for Water and Solid Waste funds and a full year of activity for the Fiber Optic fund.
- Water and Sewer funds had decreases in costs of sales and services as of the fiscal year end. Sewer fund had a decrease of \$459, and Water fund had a decrease of \$1,686. A large portion of the savings for both funds was in salaries and also savings in operation costs.

Revenues by Source

Business-type Activities



Financial Analysis of the City of Watsonville's Funds

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

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

As of the end of the current fiscal year, the City of Watsonville's governmental funds reported combined ending fund balances of \$26,293, an increase of \$1,158 in comparison with the prior restated fund balances. The largest portion of fund balances is restricted for specific purposes and the largest restricted portion is for impact fees in the amount of \$4,327. This balance is for projects that have been budgeted, planned or will be completed within the next five years. The remainders of fund balances are either non-spendable or unassigned at year end. The non-spendable portion of fund balances represents the amounts of funds that cannot be spent because they are either not in spendable form or legally required to remain intact. Unassigned fund balances represent amounts which are unconstrained in that they may be spent for any purpose.

The *General Fund* is the chief operating fund of the City of Watsonville. At the end of the current fiscal year, the charter reserve of the General Fund was \$2,450. As a measure of the General Fund's liquidity, it may be useful to compare both the charter reserve and total fund balance to total fund expenditures. The City's General Fund Reserve met the Charter Reserve this fiscal year end. The required Charter Reserve fund balance would be 6.9 percent of total general fund expenditures; the total fund balance represented 23 percent of the same amount as the City was able to increase the fund balance with reduction of debt and one time income.

The restated fund balance of the City of Watsonville's General Fund increased by \$1,070 during the current fiscal year due to the following key factors:

The General Fund increase in fund balance from increases in various property tax and sale tax revenues.

The Impact Fees Fund had a fund balance of 4,327 an increase of \$509 over the prior year's restated balance. This increase was due to revenues being saved for future projects in fund balance.

The Housing Fund had a fund balance of \$3,152, a decrease of (\$421) over the prior year's balance. This decrease is due to loan repayments during the fiscal year were less than expenditures.

The Redevelopment and Housing Grants Fund has a negative fund balance of (\$3.6), an increase of \$138 from the restated negative beginning fund balance. This increase is the result of timing differences from the time of expending grant funds and receiving reimbursement for those funds.

The government’s Debt Service Fund had a fund balance of \$131, an increase of \$6 during the fiscal year. This increase is the result of some prepayments on special assessment debt that will be used in the future to retired the debt.

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

Net position and changes of net position for the five major enterprise funds are as follows:

Proprietary Funds Change of Net Position

Fund	FY 2017	FY 2016	Change	% Change
Water	49,123	47,569	1,554	3.27%
Sewer	43,614	40,874	2,740	6.70%
Solid Waste	2,484	2,387	97	4.06%
Airport	6,319	6,398	(79)	-1.23%
Fiber Optic	19	16	3	18.75%

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

General Fund Budgetary Highlights

There were few mid-year budget amendments this fiscal year. The City Council added increased appropriations by \$353,471. \$283,471 was for costs associated with new grants for public safety and general government, and \$70,000 was for a public works project in operations.

Tax revenues were \$1,771 over budget. This increase in tax revenue was due to various property taxes being over budgeted amounts. Intergovernmental and charges for services revenues were both under budget. General government, streets and culture and recreation expenditures were lower than expected as general government has still held costs down from the 6 years of furloughs that just ended two fiscal years ago, streets have several maintenance projects were postponed to next fiscal year and culture and recreation has lower expenditures due to salary savings and holding down operating costs.

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, 2017 was \$211,732 (net of depreciation). This represents a \$993 increase from the prior year or .47%.

Total City of Watsonville Capital Assets FY 2016-17

Capital Asset	FY 2017	FY 2016	Change	% Change
Land	32,175	32,175	-	0.00%
Building and Improvements	139,426	146,332	(6,906)	-4.72%
Machinery & Equipment	7,517	6,125	1,392	22.73%
Infrastructure	22,577	22,076	501	2.27%
Construction in progress	10,037	4,031	6,006	149.00%
Totals	211,732	210,739	993	0.47%

Governmental Type Activities contributed to this increase by an increase of 0.01%

Governmental Activities Capital Assets FY 2016-17

Capital Asset	FY 2017	FY 2016	Change	% Change
Land	13,971	13,971	-	0.00%
Building and Improvements	86,262	90,040	(3,778)	-4.20%
Machinery & Equipment	3,610	3,439	171	4.97%
Infrastructure	6,018	5,692	326	5.73%
Construction in progress	5,214	1,918	3,296	171.85%
Totals	115,075	115,060	15	0.01%

While Business Type Activities contributed to this increase by an increase of 1.02%

Business Type Activities Capital Assets FY 2016-17

Capital Asset	FY 2017	FY 2016	Change	% Change
Land	18,204	18,204	-	0.00%
Building and Improvements	53,164	56,292	(3,128)	-5.56%
Machinery & Equipment	3,907	2,686	1,221	45.46%
Infrastructure	16,559	16,384	175	1.07%
Construction in progress	4,823	2,113	2,710	128.25%
Totals	96,657	95,679	978	1.02%

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

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total net debt outstanding of \$83,164. Of this amount, \$461 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds), and \$149 in special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The other debt for governmental activities is made up of notes payable of \$1,561, debt payable of \$2,258, net OPEB obligations liability of \$3,294, compensated absences of \$1,903, and net pension of \$50,536. Business type activities have \$162 in notes payable, \$420 in loans, net OPEB obligations liability of \$1,265, compensated absences of \$739, net pension of \$16,845 and landfill closure/postclosure liability of \$3,572.

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

\$145,992 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 5 on pages 66 to 74 of this report.

Economic Factors and Next Year's Budget

- COPS grant that funded three Officers for the last three fiscal years ends next fiscal year.
- Potential gain of property and sales tax revenues from the improved economy and increased housing units.
- New half percent sales tax approved for seven years to fund fire and police positions and equipment will sunset in 2021.
- Increasing PERS contributions until 2033.

With all the above factors considered, the City of Watsonville future appears to be brighter than past fiscal years. Overall economic activity has improved over the last fiscal year. Housing prices have increased resulting in improved property taxes, car sales have shown consistent growth and the unemployment rate in the City has decreased to a five year low. But the City needs to be prepared for the increasing PERS rates over the foreseeable future.

All of these factors were taken into consideration during the preparation of the City of Watsonville's annual budget for the fiscal year 2017-18.

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 POSITION
JUNE 30, 2017

	Primary Government		Total \$
	Governmental	Business-type	
	Activities \$	Activities \$	
ASSETS			
Cash and investments	28,300,417	20,734,633	49,035,050
Cash and investments with fiscal agent	-	40,518	40,518
Restricted cash	-	1,594,637	1,594,637
Receivables:			
Interest	1,815,316	-	1,815,316
Taxes	4,255,381	-	4,255,381
Assessments	98,000	-	98,000
Accounts	806,340	2,825,624	3,631,964
Intergovernmental	732,829	570,461	1,303,290
Internal balances	(1,414,605)	1,414,605	-
Loans receivable	30,332,497	806,628	31,139,125
Inventories	30,896	538,650	569,546
Deposits	60,000	-	60,000
Land held for resale	1,177,012	-	1,177,012
Capital assets (net of depreciation, where applicable)			
Land	13,970,752	18,203,603	32,174,355
Buildings and Improvements	86,262,256	53,163,600	139,425,856
Machinery	3,609,674	3,906,659	7,516,333
Infrastructure	6,018,097	16,559,505	22,577,602
Construction in progress	5,214,402	4,823,373	10,037,775
Total Assets	<u>181,269,264</u>	<u>125,182,496</u>	<u>306,451,760</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - Pensions	<u>12,846,296</u>	<u>3,943,209</u>	<u>16,789,505</u>
Total deferred outflow of resources	<u>12,846,296</u>	<u>3,943,209</u>	<u>16,789,505</u>

See accompanying notes to financial statements

Continued

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
	\$	\$	\$
LIABILITIES			
Accounts payable	1,022,847	2,091,550	3,114,397
Accrued personnel costs	1,486,833	658,166	2,144,999
Insurance claims payable	3,069,452	-	3,069,452
Interest payable	41,990	1,249	43,239
Retentions payable	142,739	89,070	231,809
Unearned revenue	-	103,478	103,478
Deposits	989,440	24,152	1,013,592
Noncurrent liabilities			
Due within one year	747,520	441,707	1,189,227
Due in more than one year			
(Net of capitalized discounts)	<u>58,953,193</u>	<u>23,021,241</u>	<u>81,974,434</u>
Total Liabilities	<u>66,454,014</u>	<u>26,430,613</u>	<u>92,884,627</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources - Pensions	<u>3,203,307</u>	<u>1,136,911</u>	<u>4,340,218</u>
Total deferred inflow of resources	<u>3,203,307</u>	<u>1,136,911</u>	<u>4,340,218</u>
NET POSITION			
Net investment in capital assets	111,256,449	96,034,215	207,290,664
Restricted for:			
Debt service	89,111	-	89,111
Impact fee	4,326,716	-	4,326,716
Housing	3,151,590	-	3,151,590
Grants, contributions & fees for specific purpose	8,928,705	-	8,928,705
Unrestricted	<u>(3,294,332)</u>	<u>5,523,966</u>	<u>2,229,634</u>
Total Net Position	<u>124,458,239</u>	<u>101,558,181</u>	<u>226,016,420</u>

See accompanying notes to financial statements

Concluded

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CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:	\$	\$	\$	\$	\$	\$	\$
Governmental activities:							
General government	8,256,541	8,426,290	95,263	-	265,012	-	265,012
Public safety	27,381,496	1,779,721	972,040	-	(24,629,735)	-	(24,629,735)
Housing	2,317,620	675,384	1,642,930	-	694	-	694
Streets	6,348,402	2,283,571	557,496	-	(3,507,335)	-	(3,507,335)
Culture and recreation	7,817,448	952,395	42,644	-	(6,822,409)	-	(6,822,409)
Interest on long term debt	145,991	-	-	-	(145,991)	-	(145,991)
Total government activities	<u>52,267,498</u>	<u>14,117,361</u>	<u>3,310,373</u>	<u>-</u>	<u>(34,839,764)</u>	<u>-</u>	<u>(34,839,764)</u>
Business-type activities							
Water	13,850,899	14,617,036	-	952,064	-	1,718,201	1,718,201
Sewer	10,272,037	12,069,468	706,931	134,075	-	2,638,437	2,638,437
Solid Waste	10,976,284	11,224,562	12,280	-	-	260,558	260,558
Airport	2,683,886	1,936,714	653,909	17,372	-	(75,891)	(75,891)
Fiber Optic	41,179	43,856	-	-	-	2,677	2,677
Total business-type activities	<u>37,824,285</u>	<u>39,891,636</u>	<u>1,373,120</u>	<u>1,103,511</u>	<u>-</u>	<u>4,543,982</u>	<u>4,543,982</u>
Total primary government	<u>90,091,783</u>	<u>54,008,997</u>	<u>4,683,493</u>	<u>1,103,511</u>	<u>(34,839,764)</u>	<u>4,543,982</u>	<u>(30,295,782)</u>
General revenues:							
Property taxes					13,299,865	-	13,299,865
Sales taxes					16,082,622	-	16,082,622
Utility users taxes					3,679,443	-	3,679,443
Franchise taxes					470,945	-	470,945
Other taxes					1,792,548	-	1,792,548
Intergovernmental revenues not restricted to specific program					1,008,627	-	1,008,627
Unrestricted investment earnings					2,217,910	206,199	2,424,109
Transfers					308,130	(308,130)	-
Total general revenues and transfers					<u>38,860,090</u>	<u>(101,931)</u>	<u>38,758,159</u>
Change in net position					<u>4,020,326</u>	<u>4,442,051</u>	<u>8,462,377</u>
Net position - beginning					<u>120,375,802</u>	<u>97,242,456</u>	<u>217,618,258</u>
Prior period adjustments					<u>62,111</u>	<u>(126,326)</u>	<u>(64,215)</u>
Net position - beginning, restated					<u>120,437,913</u>	<u>97,116,130</u>	<u>217,554,043</u>
Net position - ending					<u>124,458,239</u>	<u>101,558,181</u>	<u>226,016,420</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	SPECIAL REVENUE FUNDS						TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	
				GRANTS			
\$	\$	\$	\$	\$	\$	\$	
ASSETS:							
Cash and investments	10,031,128	3,812,293	1,997,695	1,606,991	128,856	9,131,634	26,708,597
Receivables:							
Interest	181,400	-	686,953	836,200	-	110,763	1,815,316
Taxes	3,102,465	-	-	-	2,245	1,150,671	4,255,381
Deferred assessments	-	-	-	-	98,000	-	98,000
Accounts	519,932	-	-	-	-	16,055	535,987
Intergovernmental	332,165	-	-	163,087	-	237,577	732,829
Due from other funds	1,171,088	-	-	-	-	-	1,171,088
Advances receivable	2,933,790	530,786	-	-	-	582,851	4,047,427
Loans receivable	4,162,208	-	11,753,452	13,586,306	-	830,531	30,332,497
Inventories	30,896	-	-	-	-	-	30,896
Land held for resale	-	-	1,177,012	-	-	-	1,177,012
Total Assets	22,465,072	4,343,079	15,615,112	16,192,584	229,101	12,060,082	70,905,030
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts payable	692,380	16,363	16,134	13,066	-	196,140	934,083
Accrued personnel costs	1,407,246	-	6,512	3,396	-	69,679	1,486,833
Due to other funds	-	-	-	-	-	721,088	721,088
Retentions payable	-	-	-	2,190	-	140,549	142,739
Advances payable	5,912,032	-	-	-	-	-	5,912,032
Unearned revenue	283,060	-	-	457,941	-	-	741,001
Deposits	919,250	-	471	-	-	69,719	989,440
Total Liabilities	9,213,968	16,363	23,117	476,593	-	1,197,175	10,927,216
Deferred Inflows of Resources							
Unavailable revenue	4,229,269	-	12,440,405	15,719,616	98,000	1,197,479	33,684,769
Total Deferred Inflows of Resources	4,229,269	-	12,440,405	15,719,616	98,000	1,197,479	33,684,769
Fund Balances:							
Nonspendable:							
Inventories	30,896	-	-	-	-	-	30,896
Advance receivable	2,933,790	-	-	-	-	-	2,933,790
Restricted for:							
Debt service	-	-	-	-	131,101	-	131,101
Streets - Impact fees	-	4,326,716	-	-	-	-	4,326,716
Housing	-	-	3,151,590	-	-	-	3,151,590
Redevelopment and Housing	-	-	-	-	-	-	-
Streets - Gas tax	-	-	-	-	-	1,018,570	1,018,570
Public safety - Narcotics assets seizure	-	-	-	-	-	78,872	78,872
Housing - Business development	-	-	-	-	-	67,573	67,573
Cultural and recreation - Library	-	-	-	-	-	1,320,933	1,320,933
Cultural and recreation - Parks development	-	-	-	-	-	1,600,009	1,600,009
General government - Retirement tax	-	-	-	-	-	1,295,285	1,295,285
Public safety - Measure G	-	-	-	-	-	2,920,737	2,920,737
Housing - Inclusionary housing	-	-	-	-	-	2,100,172	2,100,172
Unassigned	6,057,149	-	-	(3,625)	-	(736,723)	5,316,801
Total Fund Balances	9,021,835	4,326,716	3,151,590	(3,625)	131,101	9,665,428	26,293,045
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	22,465,072	4,343,079	15,615,112	16,192,584	229,101	12,060,082	70,905,030

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 POSITION
JUNE 30,2017

Amounts Reported For Governmental Activities To The Statement Of Net Position Are Different Because:	\$
Fund Balances Of Governmental Funds. (Page 34)	26,293,045
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	196,689,580
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(81,614,399)
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 Position.	(1,236,043)
Loans, Intergovernmental And Assessment Receivables Recorded As Unearned Revenue Or Unavailable Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities.	34,425,770
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(41,990)
Long-term Liability Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(59,700,713)
Deferred Outflows And Inflows Of Resources Relating To Pensions: In Governmental Funds, Deferred Outflows And Inflows Of Resources Relating To Pensions Are Not Reported Because They Are Applicable To Future Periods. In The Statement Of Net Position, Deferred Outflows And Inflows Of Resources Relating To Pensions Are Reported.	
Deferred Outflows Of Resources Relating To Pensions	12,846,296
Deferred Inflows Of Resources Relating To Pensions	(3,203,307)
Total Net Position - Governmental Activities	124,458,239

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, 2017

	SPECIAL REVENUE FUNDS						TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING	DEBT	OTHER	
				GRANTS	SERVICE	GOVERNMENTAL FUNDS	
\$	\$	\$	\$	\$	\$	\$	
REVENUES:							
Taxes	25,290,745	-	-	-	-	10,907,538	36,198,283
Licenses, permits, and fees	4,510,135	596,470	-	-	-	778,279	5,884,884
Intergovernmental	1,502,414	-	-	1,357,055	76,166	474,625	3,410,260
Charges for services	2,770,016	-	-	-	-	-	2,770,016
Fines	736,828	-	-	-	-	-	736,828
Interest	2,196,951	167,767	10,916	7,914	-	51,206	2,434,754
Special assessment	-	-	-	-	60,030	-	60,030
Miscellaneous	959,568	-	662,076	-	-	249,333	1,870,977
Total revenues	<u>37,966,657</u>	<u>764,237</u>	<u>672,992</u>	<u>1,364,969</u>	<u>136,196</u>	<u>12,460,981</u>	<u>53,366,032</u>
EXPENDITURES:							
Current:							
General government	7,705,747	-	-	-	-	706,888	8,412,635
Public safety	23,508,110	-	-	-	-	3,377,961	26,886,071
Housing	-	-	1,221,137	936,891	-	159,592	2,317,620
Streets	3,814,637	231,413	-	-	-	2,322,710	6,368,760
Culture and recreation	4,391,793	-	-	-	-	3,451,727	7,843,520
Debt service:							
Principal	-	-	-	-	477,854	-	477,854
Interest and fiscal charges	-	-	-	-	173,436	-	173,436
Total expenditures	<u>39,420,287</u>	<u>231,413</u>	<u>1,221,137</u>	<u>936,891</u>	<u>651,290</u>	<u>10,018,878</u>	<u>52,479,896</u>
Excess (deficiency) of revenues over (under) expenditures	(1,453,630)	532,824	(548,145)	428,078	(515,094)	2,442,103	886,136
OTHER FINANCING SOURCES (USES)							
Transfers in	2,780,154	-	127,620	-	521,152	133,195	3,562,121
Transfers out	(256,890)	(23,354)	-	(290,186)	-	(2,719,519)	(3,289,949)
Total other financing sources (uses)	<u>2,523,264</u>	<u>(23,354)</u>	<u>127,620</u>	<u>(290,186)</u>	<u>521,152</u>	<u>(2,586,324)</u>	<u>272,172</u>
Net change in fund balances	<u>1,069,634</u>	<u>509,470</u>	<u>(420,525)</u>	<u>137,892</u>	<u>6,058</u>	<u>(144,221)</u>	<u>1,158,308</u>
Fund balances, July 1	7,592,634	3,817,246	3,572,115	90,173	125,043	9,967,094	25,164,305
Prior period adjustments	359,567	-	-	(231,690)	-	(157,445)	(29,568)
Fund balances, July 1, as restated	<u>7,952,201</u>	<u>3,817,246</u>	<u>3,572,115</u>	<u>(141,517)</u>	<u>125,043</u>	<u>9,809,649</u>	<u>25,134,737</u>
Fund balances, June 30	<u>9,021,835</u>	<u>4,326,716</u>	<u>3,151,590</u>	<u>(3,625)</u>	<u>131,101</u>	<u>9,665,428</u>	<u>26,293,045</u>

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, 2017

	<u>\$</u>
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Net Change In Fund Balance - Total Governmental Funds (Page 36)	1,158,308
Governmental Funds Report Capital Outlay As Expenditures However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense. This Is The Amount By Which Capital Outlays Was Less Than Depreciation In The Current Period And Costs of Capital Assets Disposed In The Current Year.	15,790
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	135,768
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 Position.	
This Amount Is The Repayment Of Principal	500,025
This Amount Of Post Retirement Costs	21,218
This Amount Of Compensated Absences	153,330
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	2,513,853
In Governmental Funds, Pension Costs Are Recognized When Employer Contributions Are Made. In The Statement Of Activities, Pension Costs Are Recognized On The Accrual Basis. This Fiscal Year, The Difference Between Accrual-basis Pension Costs And Actual Employer Contributions Was: Premium For The Period Is	(483,238)
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>5,274</u>
Change In Net Position Of Governmental Funds. (Page 33)	<u><u>4,020,328</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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Taxes	23,520,112	23,520,112	25,290,745	1,770,633
Licenses, permits, and fees	4,469,758	4,469,758	4,510,135	40,377
Intergovernmental	1,556,354	1,839,825	1,502,414	(337,411)
Charges for services	2,938,830	2,938,830	2,770,016	(168,814)
Fines	760,000	760,000	736,828	(23,172)
Interest	1,975,327	1,975,327	2,196,951	221,624
Miscellaneous	540,213	720,213	959,568	239,355
Total revenues	35,760,594	36,224,065	37,966,657	1,742,592
EXPENDITURES:				
Current:				
General government	9,402,010	9,666,510	7,705,747	1,960,763
Public safety	22,772,284	22,791,255	23,508,110	(716,855)
Streets	4,553,635	4,623,635	3,814,637	808,998
Culture and recreation	4,813,131	4,813,131	4,391,793	421,338
Total expenditures	41,541,060	41,894,531	39,420,287	2,474,244
Excess (deficiency) of revenues over (under) expenditures	(5,780,466)	(5,670,466)	(1,453,630)	4,216,836
OTHER FINANCING SOURCES (USES)				
Transfers in	3,455,836	3,455,836	2,780,154	(675,682)
Transfers out	(337,752)	(337,752)	(256,890)	80,862
Total other financing sources (uses)	3,118,084	3,118,084	2,523,264	(594,820)
Net change in fund balance	(2,662,382)	(2,552,382)	1,069,634	3,622,016
Fund balance, July 1	7,592,634	7,592,634	7,592,634	-
Prior period adjustments	-	-	359,567	359,567
Fund balance July 1, as restated	7,592,634	7,592,634	7,952,201	359,567
Fund balance, June 30	4,930,252	5,040,252	9,021,835	3,981,583

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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Licenses, permits, and fees	358,000	358,000	596,470	238,470
Interest	33,500	33,500	167,767	134,267
Total revenues	<u>391,500</u>	<u>391,500</u>	<u>764,237</u>	<u>372,737</u>
EXPENDITURES:				
Current:				
Streets	<u>1,831,665</u>	<u>1,831,665</u>	<u>231,413</u>	<u>1,600,252</u>
Total expenditures	<u>1,831,665</u>	<u>1,831,665</u>	<u>231,413</u>	<u>1,600,252</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,440,165)</u>	<u>(1,440,165)</u>	<u>532,824</u>	<u>1,972,989</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(23,354)</u>	<u>(23,354)</u>	<u>(23,354)</u>	<u>-</u>
Total other financing sources (uses)	<u>(23,354)</u>	<u>(23,354)</u>	<u>(23,354)</u>	<u>-</u>
Net change in fund balance	(1,463,519)	(1,463,519)	509,470	1,972,989
Fund balance, July 1	<u>3,817,246</u>	<u>3,817,246</u>	<u>3,817,246</u>	<u>-</u>
Fund balance, June 30	<u><u>2,353,727</u></u>	<u><u>2,353,727</u></u>	<u><u>4,326,716</u></u>	<u><u>1,972,989</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Interest	2,500	2,500	10,916	8,416
Miscellaneous	5,000	5,000	662,076	657,076
Total revenues	7,500	7,500	672,992	665,492
EXPENDITURES:				
Current:				
Housing	234,945	1,477,160	1,221,137	256,023
Total expenditures	234,945	1,477,160	1,221,137	256,023
Excess (deficiency) of revenues over (under) expenditures	(227,445)	(1,469,660)	(548,145)	921,515
OTHER FINANCING SOURCES (USES)				
Transfers In	127,621	127,621	127,620	(1)
Total other financing sources (uses)	127,621	127,621	127,620	(1)
Net change in fund balance	(99,824)	(1,342,039)	(420,525)	921,514
Fund balance, July 1	3,572,115	3,572,115	3,572,115	-
Fund balance, June 30	3,472,291	2,230,076	3,151,590	921,514

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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Intergovernmental	2,523,279	2,523,279	1,357,055	(1,166,224)
Interest	-	-	7,914	7,914
Total revenues	<u>2,523,279</u>	<u>2,523,279</u>	<u>1,364,969</u>	<u>(1,158,310)</u>
EXPENDITURES:				
Housing	<u>2,191,123</u>	<u>2,191,123</u>	<u>936,891</u>	<u>1,254,232</u>
Total expenditures	<u>2,191,123</u>	<u>2,191,123</u>	<u>936,891</u>	<u>95,922</u>
Excess (deficiency) of revenues over (under) expenditures	<u>332,156</u>	<u>332,156</u>	<u>428,078</u>	<u>95,922</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(290,186)</u>	<u>(290,186)</u>	<u>(290,186)</u>	<u>-</u>
Total other financing sources (uses)	<u>(290,186)</u>	<u>(290,186)</u>	<u>(290,186)</u>	<u>-</u>
Net change in fund balance	<u>41,970</u>	<u>41,970</u>	<u>137,892</u>	<u>95,922</u>
Fund balance, July 1	90,173	90,173	90,173	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(231,690)</u>	<u>(231,690)</u>
Fund balance July 1, as restated	<u>90,173</u>	<u>90,173</u>	<u>(141,517)</u>	<u>(231,690)</u>
Fund balance, June 30	<u><u>132,143</u></u>	<u><u>132,143</u></u>	<u><u>(3,625)</u></u>	<u><u>(135,768)</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Business-type Activities - Enterprise Funds					TOTALS	Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC		
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Current Assets:							
Cash and investments	4,869,022	8,358,781	6,576,218	833,944	96,668	20,734,633	1,591,820
Cash and investments with fiscal agent	-	-	56	-	-	56	-
Restricted cash	-	1,594,637	-	-	-	1,594,637	-
Receivables:							
Accounts	645,206	1,775,533	340,192	61,818	2,875	2,825,624	270,353
Intergovernmental	9,137	556,306	5,018	-	-	570,461	-
Loans receivable	-	71,543	-	-	-	71,543	-
Deposits	-	-	-	-	-	-	60,000
Inventories	434,268	-	93	104,289	-	538,650	-
Total Current Assets	5,957,633	12,356,800	6,921,577	1,000,051	99,543	26,335,604	1,922,173
Noncurrent Assets							
Cash and investments with fiscal agent	-	-	40,462	-	-	40,462	-
Advances receivable	3,911,654	1,145,484	325,047	21,465	-	5,403,650	-
Loan receivable	-	735,085	-	-	-	735,085	-
Capital assets:							
Land and improvements	218,742	8,943,007	1,457,959	7,583,895	-	18,203,603	-
Buildings	48,457,209	29,269,948	1,886,242	9,160,742	-	88,574,141	-
Machinery and equipment	5,788,282	4,694,738	9,152,819	283,632	-	19,919,471	-
Infrastructure	12,938,624	39,041,050	-	3,124,271	706,929	55,810,874	-
Construction in progress	2,806,692	2,016,681	-	-	-	4,823,373	-
Accumulated depreciation	(26,300,761)	(45,817,199)	(8,234,825)	(10,283,645)	(38,292)	(90,674,722)	-
Total Capital Assets (Net of accumulated depreciation)	43,908,788	38,148,225	4,062,195	9,868,895	668,637	96,656,740	-
Total Noncurrent Assets	47,820,442	40,028,794	4,427,704	9,890,360	668,637	102,835,937	-
Total Assets	53,778,075	52,385,594	11,349,281	10,890,411	768,180	129,171,541	1,922,173
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflow of resources - pension	960,137	1,672,019	1,066,241	244,812	-	3,943,209	-
Total deferred outflow of resources	960,137	1,672,019	1,066,241	244,812	-	3,943,209	-
LIABILITIES							
Current Liabilities:							
Accounts payable	601,776	1,070,901	229,867	189,006	-	2,091,550	88,764
Accrued personnel costs	150,132	289,916	175,223	42,895	-	658,166	-
Insurance claims payable	-	-	-	-	-	-	3,069,452
Interest payable	-	-	1,249	-	-	1,249	-
Retention payable	-	73,499	15,571	-	-	89,070	-
Customer deposits	24,152	-	-	-	-	24,152	-
Due to other funds	-	-	-	450,000	-	450,000	-
Unearned revenue	2,372	-	-	58,487	42,619	103,478	-
Current maturities of long term debt:							
Compensated absences	10,232	18,458	13,844	1,792	-	44,326	-
Liability for landfill closure	-	-	59,500	-	-	59,500	-
Revenue bonds	-	-	225,584	-	-	225,584	-
Note payable	-	112,297	-	-	-	112,297	-
Total Current Liabilities	788,664	1,565,071	720,838	742,180	42,619	3,859,372	3,158,216
Noncurrent Liabilities:							
Advance payable	-	-	-	2,832,116	706,929	3,539,045	-
Compensated absences	160,307	289,169	216,891	28,079	-	694,446	-
Post retirement	319,812	451,116	409,804	84,415	-	1,265,147	-
Liability for landfill closure	-	-	3,512,409	-	-	3,512,409	-
Net pension liability	4,097,680	7,147,825	4,551,656	1,047,344	-	16,844,505	-
Note payable	-	49,256	-	-	-	49,256	-
Loan payable	-	420,090	-	-	-	420,090	-
Revenue bonds payable (Net of capitalized discounts)	-	-	235,388	-	-	235,388	-
Total Noncurrent Liabilities	4,577,799	8,357,456	8,926,148	3,991,954	706,929	26,560,286	-
Total Liabilities	5,366,463	9,922,527	9,646,986	4,734,134	749,548	30,419,658	3,158,216
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow of resources - pension	248,739	521,441	284,645	82,086	-	1,136,911	-
Total deferred inflow of resources	248,739	521,441	284,645	82,086	-	1,136,911	-
Net Position							
Net investment in capital assets	43,908,788	37,986,672	3,601,223	9,868,895	668,637	96,034,215	-
Unrestricted	5,214,222	5,626,973	(1,117,332)	(3,549,892)	(650,005)	5,523,966	(1,236,043)
Total Net Position	49,123,010	43,613,645	2,483,891	6,319,003	18,632	101,558,181	(1,236,043)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC	TOTALS	
	\$	\$	\$	\$	\$	\$	\$
OPERATING REVENUES:							
Charges for services	14,617,036	12,069,468	11,224,562	1,936,714	43,856	39,891,636	10,785,267
Total Operating Revenue	14,617,036	12,069,468	11,224,562	1,936,714	43,856	39,891,636	10,785,267
OPERATING EXPENSES:							
Costs of sales and services	12,216,914	9,010,895	10,369,843	2,363,032	5,833	33,966,517	8,318,266
Depreciation	1,633,985	1,261,142	581,755	305,906	35,346	3,818,134	-
Total Operating Expenses	13,850,899	10,272,037	10,951,598	2,668,938	41,179	37,784,651	8,318,266
Operating Income (Loss)	766,137	1,797,431	272,964	(732,224)	2,677	2,106,985	2,467,001
NONOPERATING REVENUES (EXPENSES)							
Lease revenue	-	-	-	653,909	-	653,909	-
Grant revenue	-	706,931	12,280	-	-	719,211	-
Interest revenue	26,663	122,649	53,386	3,501	-	206,199	10,894
Interest expense	-	-	(24,686)	(14,948)	-	(39,634)	-
Total Nonoperating Revenues (expenses)	26,663	829,580	40,980	642,462	-	1,539,685	10,894
Income Before Contributions and Transfers	792,800	2,627,011	313,944	(89,762)	2,677	3,646,670	2,477,895
Capital contributions -							
Grants	600,660	-	-	17,372	-	618,032	-
Connection fees	351,404	134,075	-	-	-	485,479	-
Transfers in	-	-	-	-	-	-	35,958
Transfers out	(97,208)	(163,405)	(42,461)	(5,056)	-	(308,130)	-
Changes in Net Position	1,647,656	2,597,681	271,483	(77,446)	2,677	4,442,051	2,513,853
Total Net Position- Beginning	47,568,854	40,873,630	2,386,508	6,397,509	15,955	97,242,456	(3,841,575)
Prior period adjustments	(93,500)	142,334	(174,100)	(1,060)	-	(126,326)	91,679
Total Net Position - Beginning, as restated	47,475,354	41,015,964	2,212,408	6,396,449	15,955	97,116,130	(3,749,896)
Total Net Position - Ending	49,123,010	43,613,645	2,483,891	6,319,003	18,632	101,558,181	(1,236,043)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds					TOTALS	Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC		
	\$	\$	\$	\$	\$		
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	14,859,800	11,504,410	12,021,375	2,801,862	83,600	41,271,047	-
Receipts from interfund services provided	-	-	-	-	-	-	10,793,324
Payments to suppliers	(7,613,462)	(1,681,149)	(4,956,418)	(2,491,003)	(5,833)	(16,747,865)	(10,052,700)
Payments to employees	(3,745,987)	(5,767,335)	(3,985,385)	(578,289)	-	(14,076,996)	-
Payment for interfund services used	(1,240,930)	(1,065,435)	(1,332,921)	(243,091)	-	(3,882,377)	-
Net cash provided (used) by operating activities	2,259,421	2,990,491	1,746,651	(510,521)	77,767	6,563,809	740,624
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from (to) other funds	(97,208)	(163,405)	(42,461)	(5,056)	-	(308,130)	35,958
Net cash provided (used) by noncapital financing activities	(97,208)	(163,405)	(42,461)	(5,056)	-	(308,130)	35,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition of capital assets	(870,980)	(2,255,122)	(1,655,505)	-	-	(4,781,607)	-
Connection fees	351,404	134,075	-	-	-	485,479	-
Grant revenue	600,660	706,931	12,280	16,372	-	1,336,243	-
Principal paid on long term debt	-	-	(216,188)	-	-	(216,188)	-
Interest paid on long term debt	-	-	(26,817)	(14,948)	-	(41,765)	-
Net cash provided (used) by capital and related financing activities	81,084	(1,414,116)	(1,886,230)	1,424	-	(3,217,838)	-
CASH FLOWS FROM INVESTING ACTIVITIES:							
Lease revenue	-	-	-	653,909	-	653,909	-
Interest received	29,175	122,649	53,386	3,501	-	208,711	10,894
Net cash provided (used) by investment activities	29,175	122,649	53,386	657,410	-	862,620	10,894
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,272,472	1,535,619	(128,654)	143,257	77,767	3,900,461	787,476
CASH AND CASH EQUIVALENTS, JULY 1	2,596,550	7,994,984	6,745,390	690,687	18,901	18,027,611	804,344
CASH AND CASH EQUIVALENTS, JUNE 30	4,869,022	9,530,603	6,616,736	833,944	96,668	21,946,973	1,591,820
Reconciliation of Statement of Net Position:							
Cash and investments	4,869,022	8,358,781	6,616,680	833,944	96,668	20,775,095	1,591,820
Cash with fiscal agent	-	-	56	-	-	56	-
Restricted cash	-	1,594,637	-	-	-	1,594,637	-
	4,869,022	9,953,418	6,616,736	833,944	96,668	22,369,788	1,591,820
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income (loss)	766,137	1,797,431	272,964	(732,224)	2,677	2,106,985	2,467,001
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,633,985	1,261,142	581,755	305,906	35,346	3,818,134	-
(Increase) decrease in receivables	11,631	108,710	189,643	46,416	(2,875)	353,525	8,057
(Increase) decrease in inventories	(32,919)	-	51	(42,213)	-	(75,081)	-
(Increase) decrease in loans receivable	357,793	66,720	-	-	-	424,513	-
(Increase) decrease in due from other governments	(9,137)	(556,306)	8,916	123,816	-	(432,711)	-
(Increase) decrease in advance receivable	(119,895)	-	717,721	(393,073)	-	204,753	-
(Increase) decrease in deferred outflows	(614,881)	(338,317)	(676,754)	(143,305)	-	(1,773,257)	-
Increase (decrease) in pension liability	790,972	1,295,438	870,564	184,345	-	3,141,319	-
Increase (decrease) in accounts payable	(359,375)	622,796	(44,414)	154,283	-	373,290	(7,971)
Increase (decrease) in claims payable	-	-	-	-	-	-	(1,726,463)
Increase (decrease) in accrued personnel costs	23,309	(146,631)	40,298	2,434	-	(80,590)	-
Increase (decrease) in retentions payable	-	73,499	15,571	(22,638)	-	66,432	-
Increase (decrease) in unearned revenue	2,372	(184,182)	-	54,402	42,619	(84,789)	-
Increase (decrease) in customer deposits	17,977	-	-	-	-	17,977	-
Increase (decrease) in post retirement	(1,978)	(2,769)	(2,308)	(527)	-	(7,582)	-
Increase (decrease) in deferred inflows	(206,570)	(1,007,040)	(227,356)	(48,143)	-	(1,489,109)	-
Total adjustments	1,493,284	1,193,060	1,473,687	221,703	75,090	4,456,824	(1,726,377)
Net cash provided (used) by operating activities	2,259,421	2,990,491	1,746,651	(510,521)	77,767	6,563,809	740,624
NONCASH INVESTING ACTIVITIES:							
Landfill postclosure liability amortization	-	-	\$154,583	-	-	\$154,583	-
Landfill usage amortization	-	-	\$50,830	-	-	\$50,830	-

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2017

ASSETS	\$
Cash and Investments with Fiscal Agent	1,698,367
Restricted Cash	3,640,607
Receivables	
Taxes	1,005,835
Notes	395,681
Total Assets	<u>6,740,490</u>
DEFERRED OUTFLOW OF RECOURSES	
Deferred Loss on Refunding	232,058
Total Deferred Outflow of Resources	<u>232,058</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	2,296
Salaries Payable	1,229
Interest Payable	348,547
Notes Payable	635,642
Debt Payable	54,619
Refunding Bonds Payable	1,170,000
Total Current Liabilities	<u>2,212,333</u>
Noncurrent liabilities	
Notes Payable	3,589,878
Net OPEB Obligations	64,461
Debt Payable	56,260
Refunding Bonds Payable	13,366,519
Total Non Current liabilities	<u>17,077,118</u>
Total Liabilities	<u>19,289,451</u>
Net Position	
Unrestricted	(12,316,903)
Total Net Position	<u><u>(12,316,903)</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	\$
ADDITIONS:	
Interest Income	20
Intergovernment	4,423,726
Amortization	87,830
Total Additions	4,511,576
DEDUCTIONS:	
Administration	265,531
Interest	632,162
Issuance	119,195
Total Deductions	1,016,888
Change in Net Position	3,494,688
Net Position, July 1, 2016	(17,467,124)
Prior Period Adjustment	1,655,533
Net Position, July 1, 2016, Restated	(15,811,591)
Net Position, June 30, 2017	(12,316,903)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting entity

The City of Watsonville, California was incorporated in 1868 as a charter city and operates under the Council-Manager form of government. The City provides the following services: public safety (police, fire and building inspections), highway and streets, water, sewer and solid waste services, airport, public improvements, planning and zoning, housing and general administration.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government except for the Fiduciary fund type – Private Purpose Trust Fund. 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.

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

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

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

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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

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

The government reports the following major governmental funds:

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

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

The Housing Fund is used for low and moderate-income housing projects. The fund is funded by old 20% RDA housing loans monthly payments and with loan payoffs.

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

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

The government reports the following major proprietary funds:

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

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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 receipts 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.

The Fiber Optic Fund records the activities of the City's new fiber optic system installed. The fund receives payments for use of the system.

Additionally, the government reports the following fund types:

The Internal Service Fund is used to account for financing of insurance services (workers compensation, general liability and health benefits) provided to other government funds and departments on a cost reimbursement basis.

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds principal ongoing operations. The principal operating revenues of the 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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.

D. Assets, liabilities, and net position or fund balance

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

Cash and cash equivalents

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

2. Receivables and payables

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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

4. Land held for resale

Land held for resale is carried at the lower of cost or estimated realizable value.

5. Capital assets

Capital assets, which include property, plant and equipment, and infrastructure, (e.g., bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems), and construction in progress are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement are valued at their estimated acquisition 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, are 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, 2017 (Continued)

6. Compensated absences

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

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

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

7. Interfund transactions

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

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

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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, 2017 (Continued)

9. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*,” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*,” the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The City has one item which qualifies for reporting; see Note V.E. for a detailed listing of the deferred outflows. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period. The City has one item which qualifies for reporting in this category; refer to Note V. E. for a detailed listing of the pension related deferred inflows of resources the City has recognized.

10. Fund balances

Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

funds might report a negative balance in this classification because of commitments made, which include future funding sources for specific purposes for which amounts had been restricted, committed or assigned.

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

11. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

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 position.

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

The details of \$196,689,580 are as follows:

Capital Assets:

Land	\$13,970,752
Buildings and improvements	134,522,840
Machinery and equipment	13,443,214
Infrastructure	29,538,372
Construction in progress	<u>5,214,402</u>
Total	<u>\$196,689,580</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

The details of (\$59,700,713) are as follows:

Long-term Liabilities:	
Compensated Absences	(\$1,902,699)
Santa Cruz County Bank Loan	(2,257,671)
Notes Payable	(405,856)
Sec 108 Loan	(1,155,000)
Net OPEB Obligations	(3,294,292)
Special Assessment Bonds	(149,000)
Net Pension Liability	<u>(50,535,991)</u>
Total	<u>(\$59,700,713)</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total government funds and changes in net position 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 \$11,474 are as follows:

Capital outlay	\$4,833,554
Depreciation expense	<u>(4,817,765)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$15,789</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

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

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

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 funds require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made several supplemental budget appropriations during the fiscal year. The general fund budget was increased by

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

\$353,471 during the fiscal year. The largest portion of this was increases in general government operating budgets to for a new operating grant. There were also some public safety and streets operation costs added. City also increased special revenue funds appropriations by \$1,968,064 during the year. The City’s Housing fund was increased by \$1,242,215. This amount was for operation costs for a housing project.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year. Encumbrances were as follow at fiscal year-end: General Fund – \$939,411, Impact Fee Fund - \$175,152, Housing Fund - \$48,301, Redevelopment and Housing Fund - \$176,458 and Other Governmental Funds - \$90,049.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations in the following special revenues funds: Economic Development Fund by \$76,985 and Retirement Tax Fund by \$3,588. The Retirement Tax Fund had excess fund balance to cover these costs. The Economic Development Fund will recover these costs in future years.

C. Deficit fund equity

These special revenue funds had the following deficit fund balances: Parking Garage Fund of (\$687,798), Economic Development Fund of (\$26,328) and Abandoned Vehicle Fund of (\$22,597). The internal Service Fund had a deficit net position of (\$1,236,043) as of June 30, 2017. 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, 2017, consisted of the following:

Total Pooled Deposits and Investments	\$54,270,294
Cash and Investments with Fiscal Agent	<u>1,738,885</u>
Total Cash and Investments	<u>\$56,009,179</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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Cash and investments (including monies held by trustees and fiscal agents) as of June 30, 2017 were as follows:

<u>Cash</u>		
Demand Deposits	\$ 7,753,947	
Outstanding Checks	(1,725,580)	
Deposits in Transit	<u>313,258</u>	
Net Demand Deposits	6,341,627	
Petty Cash	<u>12,336</u>	
Cash Subtotal		\$6,353,961

<u>Investments</u>		
Assessment Bonds	149,022	
Guaranteed Investment Contracts	1,738,885	
Local Agency Investment Fund	<u>47,767,311</u>	
Investment Subtotal		<u>49,655,218</u>
Total Cash and Investments		<u>\$56,009,179</u>

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

Governmental Funds:

General	\$10,031,128
Impact Fees	3,812,292
Low Income Housing Set-Aside	1,997,695
Redevelopment & Housing Grants	1,606,992
Debt Service	128,856
Other Non-major Funds	<u>9,131,634</u>
Total Governmental Funds	<u>26,708,597</u>

Business-type Activities:

Water	4,869,022
Sewer	9,953,418
Solid waste	6,616,736
Airport	833,944
Fiber Optic	<u>96,668</u>
Total Business-type Activities	<u>22,369,788</u>

Internal Service Fund	<u>1,591,820</u>
Total Internal Service Fund	<u>1,591,820</u>

Private Purpose Trust Fund	<u>5,338,974</u>
Total Private Purpose Trust Fund	<u>5,338,974</u>
Total Government Cash and Investments	<u>\$56,009,179</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

For the fiscal year ended June 30, 2016, the City of Watsonville implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application." This Statement is effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of the GASB Statement No. 72 and the impact on the City of Watsonville's financial statements are explained below.

The City of Watsonville categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City of Watsonville has the following fair value measurements as of June 30, 2017:

		<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices In Active Market For Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
<u>Investment by fair value level</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assessment Bonds	\$149,022	\$149,022	\$ -	\$ -
Investments measured at amortized cost:				
Guaranteed Investments				
Contracts	1,738,885			
State Investment				
Pool	<u>47,767,311</u>			
Total Investment	<u>\$49,655,218</u>	<u>\$149,022</u>	<u>\$ -</u>	<u>\$ -</u>

POOLED DEPOSITS/CREDIT RISK:

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

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

At June 30, 2017, the government carrying amount of deposits and cash on hand was \$6,353,961 and bank balances were \$7,753,947. Bank balances in excess of the FDIC insurance limitations are fully

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

collateralized by the Bank by pledging identified U.S. Government securities.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of * Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Passbook Savings Acct Demand Deposit	N/A	None	None
Medium-Term Notes	5 years	30%	None
Debt of City of Watsonville	N/A	None	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	65,000,000

*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>
State Investment Pool	\$47,767,311	\$47,767,311	\$ -	\$ -	\$ -
Debt of City of Watsonville	149,022	-	-	51,000	98,022
Guaranteed Inv. Contracts	1,738,885	-	-	-	1,738,885
Total	<u>\$49,655,218</u>	<u>\$47,767,311</u>	<u>\$ -</u>	<u>\$51,000</u>	<u>\$1,836,907</u>

Disclosures Relating to Credit Risk

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
State Investment Pool	\$ 47,767,311	N/A	\$ -	\$ -	\$ 47,767,311
Debt of City of Watsonville	149,022	N/A	-	-	149,022
Guaranteed Inv. Contracts	1,738,885	N/A	-	1,738,885	-
Total	<u>\$49,655,218</u>		<u>\$ -</u>	<u>1,738,885</u>	<u>\$47,916,333</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (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, 2017 the amortized cost value of the pool was \$77,559,119,072 and the estimated fair value of the pool was \$77,539,216,146. The reported value of the government's portion of LAIF is the same value as the fair value of LAIF shares. LAIF's (and the government's) exposure to risk (credit, market or legal) is not currently available. The State's Local Agency Investment Fund (LAIF) operates in accordance with appropriate state laws and regulations.

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

B. Receivables

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

	<u>General</u>		<u>Housing</u>	<u>Redevelopment and Housing Grants</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>
	\$		\$	\$	\$	\$
Governmental Funds:						
Receivables:						
Interest	181,400		686,953	836,200	-	110,763
Taxes	3,102,465		-	-	2,245	1,150,671
Deferred						
Assessments	-		-	-	98,000	-
Accounts	519,933		-			16,055
Intergovernmental	<u>332,165</u>		<u>-</u>	<u>163,087</u>	<u>-</u>	<u>237,577</u>
Total governmental activities receivables	<u>4,135,963</u>		<u>686,953</u>	<u>999,287</u>	<u>100,245</u>	<u>1,515,066</u>
Proprietary Funds:						
Receivables:						
Accounts	2,875	645,206	1,775,533	340,192	61,818	270,353
Intergovernmental	<u>-</u>	<u>9,137</u>	<u>556,306</u>	<u>5,018</u>	<u>-</u>	<u>-</u>
Total business-type activities receivables	<u>2,875</u>	<u>654,343</u>	<u>2,331,839</u>	<u>345,210</u>	<u>61,818</u>	<u>270,353</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.

Unearned Revenue

Governmental funds report unearned revenue in connection with revenue recognition where resources have been received, but not yet earned. At the end of the current fiscal year, the various components

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

of unearned revenue reported in the governmental funds are as follows:

	<u>Unearned</u> \$
Grants drawdowns prior to meeting availability requirements:	
General Fund	283,060
Housing Fund	<u>457,941</u>
Total unearned revenue	<u>741,001</u>

Loans Receivable

Loans receivable at June 30, 2017 are summarized as follows:

General Fund:

Barbara Schutter	\$3,750	
Successor Agency	<u>4,158,458</u>	4,162,208

Housing Fund:

Pajaro Valley Affordable Housing Corporation	250,000	
Pajaro Valley Housing Corporation	512,000	
Barry Swenson	369,226	
Pacific Terrace Assoc.	225,000	
Mid Peninsula Pippin Associates	1,000,000	
MP Transit Center Associates	1,166,401	
South County Land Corporation	584,946	
Evergreen Apartments	1,000,000	
Down Payment Assistant Loans	2,158,891	
First Time Home Buyers	110,000	
Sunny Meadows	2,250,784	
Watsonville Pacific Associates	1,200,000	
Rental Rehab Loans	<u>926,204</u>	11,753,452
Redevelopment and Housing Funds:		
Rental Rehab Loans	4,700,570	
Monarch Disabled Housing	100,280	
Eden Housing	2,573,000	
First Time Home Buyers	6,182,456	
Down Payment Assistant Loans	<u>30,000</u>	13,586,306
Other Governmental Funds	<u>830,531</u>	<u>830,531</u>
Total		<u>\$30,332,497</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Proprietary Funds:

Sewer Fund:

Pajaro Dunes (North) Project	\$203,470	
Pajaro Dunes (South) Project	<u>531,615</u>	<u>735,085</u>
Total		<u>\$735,085</u>

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

Governmental activities:

Capital Assets, not being depreciated:	Beginning Balance	Additions	Deletions	Reclass	Ending Balance
	\$	\$	\$	\$	\$
Land and Improvements	13,970,752	-	-	-	13,970,752
Construction in Progress	1,918,004	3,770,080	-	(473,682)	5,214,402
Total Capital Assets not depreciated	15,888,756	3,770,080	-	(473,682)	19,185,154
Capital Assets, being depreciated:					
Building and Improvements	134,468,036	54,804	-	-	134,522,840
Machinery and Equipment	12,889,347	553,867	-	-	13,443,214
Infrastructure	28,609,887	454,803	-	473,682	29,538,372
Total Capital Assets being depreciated	175,967,270	1,063,474	-	473,682	177,504,426
Less accumulated depreciation for:					
Buildings and Improvements	(44,428,154)	(3,832,430)	-	-	(48,260,584)
Machinery and Equipment	(9,450,343)	(383,197)	-	-	(9,833,540)
Infrastructure	(22,918,137)	(602,138)	-	-	(23,520,275)
Total Accumulated depreciation	(76,796,634)	(4,817,765)	-	-	(81,614,399)
Total Capital Assets being depreciated, net	99,170,636	(3,754,291)	-	473,682	95,890,027
Governmental activities, Capital Assets, net	115,059,392	15,789	-	-	115,075,181

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Business Type activities:

Capital Assets, not being depreciated:	Beginning Balance	Additions	Deletions	Prior Period Adjustments	Ending Balance
	\$	\$	\$	\$	\$
Land and Improvements	18,203,603	-	-	-	18,203,603
Construction in Progress	2,112,597	2,710,776	-	-	4,823,373
Total Capital Assets not depreciated	20,316,200	2,710,776	-	-	23,026,976
Capital Assets, being depreciated:					
Building and Improvements	88,564,879	9,262	-	-	88,574,141
Machinery and Equipment	20,443,020	1,990,364	(2,513,913)	-	19,919,471
Infrastructure	55,739,669	71,205	-	-	55,810,874
Total Capital Assets being depreciated	164,747,568	2,070,831	(2,513,913)	-	164,304,486
Less accumulated depreciation for:					
Buildings and Improvements	(33,208,151)	(2,202,390)	-	-	(35,410,541)
Machinery and Equipment	(17,751,891)	(789,182)	2,513,913	134,348	(16,012,812)
Infrastructure	(38,424,807)	(826,562)	-	-	(39,251,369)
Total Accumulated depreciation	(89,384,849)	(3,818,134)	2,513,913	134,348	(90,674,722)
Total Capital Assets being depreciated, net	75,362,719	(1,747,303)	-	134,348	73,629,764
Business Type activities, Capital Assets, net	95,678,919	963,473	-	134,348	96,656,740

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

Government activities:	
General government	\$854,265
Public safety	2,606,220
Highways and streets	595,142
Culture and recreation	762,137
Total depreciation expense - governmental activities	<u>\$4,817,765</u>
Business-type activities:	
Water	\$1,633,985
Sewer	1,261,142
Solid waste	581,755
Airport	305,906
Fiber optic	35,346
Total depreciation expense - business-type activities	<u>\$3,818,134</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2017, 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, 2017 were as follows:

	Due from other funds	Due to other funds
Governmental Funds:	\$	\$
General	1,171,088	-
Nonmajor Funds	-	721,088
Total Governmental Funds	<u>1,171,088</u>	<u>721,088</u>
Enterprise Fund:		
Airport	-	450,000
Total Enterprise Fund	-	450,000
Total Government	<u>1,171,088</u>	<u>1,171,088</u>

The General fund covered the current cash shortfall for other non-major special revenue funds and enterprise funds.

Advances receivable/payable

Long-term interfund balances arise in the normal course of business and are not expected to be repaid during the next fiscal year. Advances receivable/payable funds balances at June 30, 2017 were as follows:

	Advances Receivable	Advances Payable
Governmental Funds:	\$	\$
General	2,933,790	5,912,032
Impact Fees	530,786	-
Nonmajor Funds	582,851	-
Total Governmental Funds	<u>4,047,427</u>	<u>5,912,032</u>
Enterprise Funds:		
Water	3,911,654	-
Sewer	1,145,484	-
Solid Waste	325,047	-
Airport	21,465	2,832,116
Fiber Optic	-	706,929
Total Enterprise Funds	<u>5,403,650</u>	<u>3,539,045</u>
Total Government	<u>9,451,077</u>	<u>9,451,077</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

With Council approval, resources may be transferred from one City fund to another. The government made various interfund transfers as follows:

	<u>Transfers In</u>					<u>Total Transfer In</u>
	<u>General Fund</u>	<u>Housing Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Internal Service Fund</u>	
<u>Transfer Out</u>	\$	\$	\$	\$	\$	\$
General Fund	-	56,061	123,054	53,483	24,292	256,890
Impact Fee Fund	-	-	23,354	-	-	23,354
Redevelopment & Housing Fund	147,966	-	142,220	-	-	290,186
Nonmajor Funds	2,632,188	-	27,843	59,488	-	2,719,519
Water Fund	-	71,559	20,593	5,056	-	97,208
Sewer Fund	-	-	152,636	5,056	5,713	163,405
Airport Fund	-	-	-	5,056	-	5,056
Solid Waste Fund	-	-	31,452	5,056	5,953	42,461
Total Transfer Out	<u>2,780,154</u>	<u>127,620</u>	<u>521,152</u>	<u>133,195</u>	<u>35,958</u>	<u>3,598,079</u>

E. Leases

Operating lease

The government has entered into a non-cancellable operating lease for 911 and public safety dispatching services with Santa Cruz Consolidated Emergency Communications Center. Total cost for the lease was \$50,840 for the fiscal year ended June 30, 2017. The future minimum lease payments as of June 30, 2017 are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u> \$
2018	50,160
2019	50,301
2020	50,384
2021	50,406
2022	50,331
2023	50,155
2024	50,755
2025	50,363
2026	50,778
2027	50,193
2028	50,410
2029	50,546
2030	50,556
2031	50,435
2032	50,126
2033	50,611
2034	<u>50,964</u>
Total	<u>857,474</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

F. Long-term debt

The government's long-term debt obligations are repaid by the following funds: Revenue Bonds from the Solid Waste Enterprise Fund; Capital Leases; the Airport Enterprise Fund; and 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 solid waste system. The revenue bonds are collateralized by the revenue of the solid waste system and the various special funds established by the bond ordinances. There is no defeased debt outstanding at June 30, 2017.

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

Revenue bonds payable at June 30, 2017 consist of the following individual issues:

	<u>Amount</u>
	\$
\$5,444,243, 2009 solid waste revenue refunding bonds due in annual principal installments ranging from \$216,188 to \$754,883 through May 2019, interest rate ranges from 4.1% to 4.3%	<u>460,972</u>
Total Revenue Bonds	<u>460,972</u>

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

2009 Solid Waste Revenue Refunding Bonds

<u>Fiscal</u> <u>Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2018	225,584	17,423	243,007
2019	<u>235,388</u>	<u>7,618</u>	<u>243,006</u>
Total	<u>460,972</u>	<u>25,041</u>	<u>486,013</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Limited obligation bonds

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

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

Limited obligation bonds payable at June 30, 2017 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%.	\$ 2,000
\$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%.	 <u>147,000</u>
Total limited obligation bonds payable at June 30, 2017	 <u>149,000</u>

The annual requirements to repay all limited obligation bonds outstanding as of June 30, 2017 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2018	51,000	9,685	60,685
2019	49,000	6,370	55,370
2020	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>
Total	<u>149,000</u>	<u>19,240</u>	<u>168,240</u>

Debt payable

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Interest rate for the loan is 5.29% with principal payments ranging from \$167,522 to \$282,376 through fiscal year 2027.

The annual requirements to amortize the loan outstanding as of June 30, 2017 is as follows:

<u>Fiscal Year</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2018	176,501	117,127	293,628
2019	185,962	107,666	293,628
2020	195,929	97,699	293,628
2021	206,431	87,197	293,628
2022	217,495	76,133	293,628
2023	229,153	64,475	293,628
2024	241,436	52,192	293,628
2025	254,377	39,251	293,628
2026	268,011	25,617	293,628
2027	<u>282,376</u>	<u>11,252</u>	<u>293,628</u>
Total	<u>2,257,671</u>	<u>678,609</u>	<u>2,936,280</u>

Notes payable

Section 108 Loan Payable –

The government entered into contract with the Secretary of U.S. Department of Housing and Urban Development. The contract is for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. #5308. The promissory note, in the amount of \$2,530,000, is for the Downtown Parking Garage Project. The note is to be repaid with future Community Development Block Grant funds over a period of twenty years at an interest rate of 1.26%.

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2017 is as follows:

<u>Maturity Date</u> <u>August 1</u>	<u>Principal</u> \$	<u>Interest</u> \$	<u>Debt Service</u> \$
2017	121,000	24,172	145,172
2018	126,000	22,771	148,771
2019	133,000	20,683	153,683
2020	140,000	18,047	158,047
2021	147,000	14,934	161,934
2022	155,000	11,308	166,308
2023	163,000	2,902	165,902
2024	<u>170,000</u>	<u>2,423</u>	<u>172,423</u>
Total	<u>1,155,000</u>	<u>117,240</u>	<u>1,272,240</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

PG&E Loans

The City entered into several agreements with Pacific Gas & Electric Company (PG&E) to retrofit City lighting with qualified energy saving lights throughout the City. The notes are to be repaid with future energy savings over various periods at interest rates of 0%.

The annual requirements to repay the PG&E note outstanding as of June 30, 2017 are as follows:

Street Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	30,298
2019	30,298
2020	30,298
2021	<u>15,149</u>
Total	<u>106,043</u>

Rodriquez Parking Garage Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	<u>6,012</u>
Total	<u>6,012</u>

Beach Street Parking Garage Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	6,825
2019	6,825
2020	<u>5,119</u>
Total	<u>18,769</u>

City Buildings Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	10,555
2019	10,555
2020	10,555
2021	10,555
2022	<u>8,795</u>
Total	<u>51,015</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Waste Water System Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	112,297
2019	10,555
2020	10,555
2021	10,555
2022	10,555
2023	<u>7,036</u>
Total	<u>161,553</u>

State Water Resources Control Board Loan

On December 18, 2015 the city entered into an agreement with California State Water Resources Control Board for a Clean Water State Revolving Fund loan to finance the Manana Lanes Sewer project. The authorized amount of the loan is \$1,486,610. Interest rate for the 20 year loan is 1.6% with principal payments ranging from \$35,749 to \$74,392. As of 6/30/2017 only \$420,090 of the loan has been drawn down by the City. The loan repayment will start after the loan has been completed.

State of California Energy Commission

The City entered into an agreement with State of California Energy Commission to retrofit the City's owned street lights with qualified energy saving lights. The note is to be repaid with future energy savings over a period of eight years at an interest rate of 3%.

The annual requirements to amortize the State of California Energy Commission note outstanding as of June 30, 2017 are as on the following page:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2018	61,642	6,263	67,905
2019	63,505	4,400	67,905
2020	65,420	2,486	67,906
2021	<u>33,450</u>	<u>503</u>	<u>33,950</u>
Total	<u>224,017</u>	<u>13,652</u>	<u>237,669</u>

Municipal landfill closure and post-closure liability and requirements

The government operates a landfill solely for the disposal of Watsonville resident's solid waste. The landfill is regulated by the California Integrated Waste Management Board, which requires that the government set aside certain funds for the landfill's eventual closure. As of June 30, 1998, the government's Solid Waste Division had completed the closure of the old landfill cell and recognized \$403,773 of expenditures to complete the closure. The government is now operating a new cell, which was expected to provide landfill capacity for 23 years with an estimated post-closure cost of \$1,405,745.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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, 2017, the new landfill cell had used 94% of its projected space. The estimated closure and post-closure costs were \$1,793,233 and \$1,494,361. The estimated remaining closure and postclosure costs are \$106,339 and \$88,616, which will be recognized as the remaining capacity is used (estimated to be 1.6 years). To date, the fund has \$479,330 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,686,894 and post-closure costs of \$1,405,745 for the open phase III cell for a total of \$3,571,909. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

NET OPEB OBLIGATIONS LIABILITY

Plan Description

Employees who have retired from service at eligible retirement age may continue health care benefits at their own cost until age sixty-five. At June 30, 2017, thirty seven retired employees participated in this program.

Funding Policy

For the retiree to be fully eligible to participate in the plan offered by the City of Watsonville, a single-employer postemployment defined benefit plan, the employee must be at least 50 years of age and have at least 5 years of service. Retirees self-pay for their benefits at 105% of the active per-capita health costs, as reset by the administrator every July 1st. During fiscal year 2016-2017, expenditures of \$422,199 were recognized for post-retirement health insurance contributions on a pay as you go basis.

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

Annual OPEB Cost

For fiscal year 2016-2017, the City's annual OPEB cost (expense) of \$57,400 was equal to the ARC plus NOO interest less an NOO amortization as follows:

Annual Required Contribution = ARC	\$152,400
Interest on Beginning of the Year (NOO)	151,200
Amortization	<u>(246,200)</u>
Annual OPEB Cost (expense)	57,400
Benefit Payments	<u>(86,200)</u>
Decrease in OPEB	(28,800)
Beginning Net OPEB Obligation	<u>4,652,700</u>
Ending Net OPEB Obligation	<u>\$4,623,900</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17, was as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	% of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
June 30, 2015	\$262,300	45.4%	\$4,674,100
June 30, 2016	\$62,000	134.5%	\$4,652,700
June 30, 2017	\$57,400	150.2%	\$4,623,900

Funded Status and Funding Progress

The funded status of the plan is as follows:

	6/30/15 <u>Actuarial</u>	6/30/13 <u>Actuarial</u>
Actuarial accrued liability (AAL)	\$1,613,300	\$3,588,200
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$1,613,300</u>	<u>\$3,588,200</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$24,400,700	\$24,994,900
UAAL as a percentage of covered payroll	7%	14%

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

Actuarial Methods and Assumptions

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

In the June 30, 2015, actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 3.25% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.0%. Inflation rate is the discount rate of 3.25% which is the combined expected long-term rate of return on the City's assets not invested in an irrevocable trust and inflation. Projected benefit increases used are as follows: initial medical, drug and vision benefit costs increase rates but are expected to reach an ultimate 4.0% trend by the plan year 2025/26. Dental benefit costs are projected to increase at 3.0% each year.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

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

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

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

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2017, was as following on the next page:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
	\$	\$	\$	\$	\$
Governmental type activities:					
General Obligation Debt:					
City loan	22,175	-	(22,175)	-	-
Debt payable	2,425,193	-	(167,318)	2,257,875	176,705
Notes payable	<u>1,806,388</u>	-	<u>(245,532)</u>	<u>1,560,856</u>	<u>236,332</u>
Subtotal	4,253,756	-	(435,025)	3,818,731	413,037
Bonds payable:					
Special assessment debt with government commitment	214,000	-	(65,000)	149,000	51,000
Other liabilities:					
Compensated absences	2,056,029	1,067,926	(1,221,256)	1,902,699	114,162
Net OPEB obligations	3,315,510	46,541	(67,759)	3,294,292	-
Net pension	<u>40,040,494</u>	<u>15,162,625</u>	<u>(4,667,128)</u>	<u>50,535,991</u>	-
Governmental activity					
Long-term Liabilities	<u>49,879,789</u>	<u>16,277,092</u>	<u>(6,456,168)</u>	<u>59,700,713</u>	<u>578,199</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	\$	\$	\$	\$	\$
Business-type activities:					
Bonds payable:					
Revenue bonds	677,160	-	(216,188)	460,972	225,584
Total bonds payable	<u>677,160</u>	<u>-</u>	<u>(216,188)</u>	<u>460,972</u>	<u>225,584</u>
State Water Resources					
Control Board liabilities	-	420,090	-	420,090	-
Notes Payable	346,523	-	(184,970)	161,553	112,297
Compensated absences	933,104	532,286	(726,618)	738,772	44,326
Net OPEB obligations	1,272,729	10,859	(18,441)	1,265,147	-
Net pension liabilities	13,703,186	4,536,716	(1,395,397)	16,844,505	-
Landfill closure/postclosure	3,430,593	200,816	(59,500)	3,571,909	59,500
Business-type activity					
Long-term liabilities	<u>20,363,295</u>	<u>5,700,767</u>	<u>(2,601,114)</u>	<u>23,462,948</u>	<u>441,707</u>

All funds with employees are required to pay their portion of costs related to other Net OPEB Obligations and Pension Liabilities. *Loans are in process no current repayment schedule at 6/30/2017.

G. Deferred Inflows of Resources

At June 30, 2017, deferred inflows of resources, reported in the governmental fund financial statements, consisted of the following:

	GENERAL	HOUSING	REDEVELOPMENT AND HOUSING GRANTS	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	\$	\$	\$	\$	\$	\$
Deferred Inflows of Resources						
Unavailable revenue	4,229,269	12,440,405	15,719,616	98,000	1,197,479	33,684,769
Total Deferred Inflows of Resources	<u>4,229,269</u>	<u>12,440,405</u>	<u>15,719,616</u>	<u>98,000</u>	<u>1,197,479</u>	<u>33,684,769</u>

H. Nonspendable fund balances

In the fund financial statements, nonspendable segregate portions of fund balance that are not available. The nonspendable fund balance established as of June 30, 2017 was as follows:

	General Fund
Inventories	\$30,896
Advance Receivable	\$2,933,790

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

V. Other information

A. Risk management

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

The government's risk management programs provide coverage for up to a maximum of \$150,000 for each Workers' Compensation claim; \$500,000 for each General Liability claim. The government purchases commercial insurance for claims in excess of coverage provided by the self-insurance programs. There have been no significant changes in insurance coverage as compared to last fiscal year.

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

Liabilities in the self-insurance fund at June 30, 2017 totaled \$3,069,452 as follows: Health Benefits \$102,354; General Liability \$466,115; and Workers' Compensation \$2,500,983.

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

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

	<u>2015-16</u>	<u>2016-17</u>
Claims incurred but not reported:	\$	\$
Beginning	679,912	603,900
Incurred claims	7,445,441	7,109,098
Claims paid	<u>(7,521,453)</u>	<u>(7,144,529)</u>
Ending	<u>603,900</u>	<u>568,469</u>
Claims payable:		
Beginning	2,193,878	3,567,685
Incurred claims	2,461,501	304,897
Claims paid	<u>(1,087,694)</u>	<u>(1,362,779)</u>
Ending	<u>3,567,685</u>	<u>2,500,983</u>
Total claims	<u>4,171,585</u>	<u>3,069,452</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

B. Public entity risk pool

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

General liability

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

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, 2017, total estimated claims payable for General Liability were \$466,115.

C. Commitments and Contingencies

Litigation

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

Grant audits

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

Contingency

Proposition 218, which was approved by the voters in November 1996, regulates the government's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the government's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. Certain language in the initiative is unclear as to the scope and impact of the proposition. Future court rulings or state legislation may clarify these issues. At this time it is uncertain as to the effect that Proposition 218 will have on the government's ability to maintain or increase the revenue it

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

receives from taxes, assessments and fees, or its effect on interfund payments in lieu of taxes and transfers of surplus funds from enterprise funds to the general fund. Also unclear is the extent to which a 1995 California Supreme Court ruling (the *Guardino* case) upholding the voter approval requirements of a previously enacted state initiative (Proposition 62) is applicable to prior periods. However, because the City of Watsonville is a Charter City, management believes that the *Guardino* ruling does not apply to its general law application in the cited case.

D. Post-employment health care benefits

Retiree benefits - COBRA benefits

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

E. Defined benefit pension plans

1. CALPERS miscellaneous employees plan

A. General Information about the Miscellaneous Pension Plan

Plan Description

All qualified permanent and probationary miscellaneous employees are eligible to participate in the City's Miscellaneous Employee Pension Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employees. Benefit provisions under the Plan is established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

		<u>Miscellaneous</u>	
	Prior to	After	After
Hire Date	July 1, 2011	July 1, 2011	January 1, 2013
Benefit Formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	60	62
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%	1.09% to 2.42%	1% to 2.5%
Required employee contribution rates	7%	7%	6.25%
Required employee contribution rates	15.081%	15.081%	15.081%

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms for the Plan

	<u>Miscellaneous</u>
Inactive employees or beneficiaries currently receiving benefits	261
Inactive employees entitled to but not yet receiving benefits	265
Active employees	<u>271</u>
Total	<u>797</u>

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the City were \$2,856,650 for the fiscal year ended June 30, 2017.

B. Net Pension Liability

The City's net pension liability for the plan is measured as the total pension liability less the pension plan's fiduciary net pension. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	Varies by Entry Age & Service
Projected Salary Increase	3.3% - 14.2 (1)
Investment Rate of Return	7.5 % (2)2
Mortality	Derived using CALPERS Membership Data for all funds

(1) Depending on age, service and type of employee

(2) Net pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, valuation were based on the results of a 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Change in Assumption:

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Inflation Sensitive	6	0.45	3.36
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	(.55)	(1.05)

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan as follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2015:	\$ 121,696,595	\$ 94,017,752	\$ 27,678,843
Change in the year:			
Service cost	2,250,229	-	2,250,229
Interest on the total pension Liability	9,093,428	-	9,093,428
Change of Assumptions Differences between Expected And Actual Experience	-	-	-
Contributions – employer	(1,307,204)	-	(1,307,204)
Contributions – employee	-	2,288,840	(2,288,840)
Net investment income	-	1,145,223	(1,145,223)
Benefit payments	-	501,726	(501,726)
Administrative Expense	(5,292,339)	(5,292,339)	-
Net change	<u>4,744,114</u>	<u>(1,413,849)</u>	<u>6,157,963</u>
Balance at June 30, 2016	<u>\$ 126,440,709</u>	<u>\$ 92,603,903</u>	<u>\$ 33,836,806</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percent point lower or 1-percent point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net pension liability	\$ 51,042,744
Current Discount Rate	7.65%
Net pension liability	\$ 33,836,806
1% Increase	8.65%
Net pension liability	\$ 19,609,899

Pension Plan Fiduciary Net Pension – Detailed information about the pension plan’s fiduciary net position is available in the separate issued CalPERS financial report.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

F. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

For the fiscal year ended June 30, 2017, the City recognized pension expense of \$1,335,869. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$2,856,650	\$ -
Changes in assumptions	-	(1,433,808)
Net difference between projected and actual earnings on plan investments	<u>5,065,573</u>	<u>-</u>
Total	<u>\$7,915,954</u>	<u>\$(2,441,905)</u>

The amount of \$2,856,650 was reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as pension expense as follows:

Fiscal Year ended <u>June 30</u>	Deferred Outflows/(Inflows) of <u>Resources</u>
2017	\$(549,367)
2018	\$(283,215)
2019	\$2,135,743
2020	\$1,320,507

G. Payable to Pension Plan

At June 30, 2017, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

2. CALPERS safety (police & fire) employees plan

A. General Information about the Pension Plan

Plan Descriptions

All qualified public safety permanent and probationary employees are eligible to participate in the City's Safety Employee Pension Plan, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Safety		
	Prior to July 1, 2011	After July 1, 2011	After January 1, 2013
Hire Date	July 1, 2011	July 1, 2011	January 1, 2013
Benefit Formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	55	57
Monthly benefits, as a % of eligible compensation	2% to 2.7%	2% to 2.7%	1% to 2.5%
Required employee contribution rates	9%	9%	11.5%
Required employer contribution rates	19.536%	16.656%	12.082%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the City were \$3,364,471 for the fiscal year ended June 30, 2017.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$33,543,690 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2016, the City's proportion was 0.667%, which increased by .043% from its proportion measured as of June 30, 2015.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

For the fiscal year ended June 30, 2017, the City recognized pension expense of \$2,921,288. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City contribution subsequent to the measurement date	\$3,364,471	\$ -
Difference between actual and expected experience	-	(229,984)
Changes in assumptions	-	(1,002,748)
Net difference between projected and actual earnings on plan investments	4,926,456	-
Changes to proportion and difference between City contribution and proportionate share of contribution	582,624	(61,317)
	-	(604,264)
Total	<u>\$8,873,551</u>	<u>\$(1,898,313)</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Change in Assumption:

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2016 to correct the adjustment which previously reduced the discount rate for administrative expenses.

The amount of \$3,364,471 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Fiscal Year ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ (60,919)
2019	\$ 162,475
2020	\$ 2,226,710
2021	\$ 1,282,501

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	<u>Safety</u>
Valuation date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation Rate	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net Pension Plan Investment And Administrative Expenses: Includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post-Retirement Benefits Increase	Contact COLA up to 2.75% until Purchase Power Protection Allowance Floor on Purchasing Power applies: 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific date. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Discount Rate

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2016 to correct the adjustment which previously reduced the discount rate for administrative expenses

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present values of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Inflation Sensitive	6	0.45	3.36
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	(.55)	(1.05)

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

- (a) An expected inflation of 2.5% was used for this period.
- (b) An expected inflation of 3.0% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

	<u>Public Safety</u>
1% Decrease	6.65%
Net pension liability	\$50,934,832
Current Discount Rate	7.65%
Net pension liability	\$33,543,690
1% Increase	8.65%
Net pension liability	\$19,267,345

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to Pension Plan

At June 30, 2017, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

F. Prior period adjustments

In the preparation of the financial statements, several entries were necessary to adjust fund equity to begin the fiscal year ending June 30, 2017 for government wide governmental activities, governmental activities and business-type activities. The adjustments were as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

	<u>Beginning</u> <u>Balance</u> \$	<u>Additions</u> \$	<u>Decreases</u> \$	<u>Balance</u> <u>Restated</u> \$
Government Wide:				
Governmental	120,375,800	463,517	(401,406)	120,437,911
Business-type	97,242,456	228,785	(355,111)	97,116,130
Governmental Funds:				
General Fund	7,592,634	359,567	-	7,952,201
Redevelopment and Housing Grants Fund	90,173	3,029	(234,719)	(141,517)
Other Governmental Funds	9,967,094	9,242	(166,687)	9,809,649
Proprietary Funds:				
Water	47,568,854	-	(93,500)	47,475,354
Sewer	40,873,630	228,785	(86,451)	41,015,964
Solid Waste	2,386,508	-	(174,100)	2,212,408
Airport	6,397,509	-	(1,060)	6,396,449
Internal Service Fund	(3,841,575)	91,679	-	(3,749,896)

Following are detailed explanations of prior period adjustments:

Government Wide –

Governmental Activities:

1. Adjustments were made to correct prior year's expenses (\$7,093) and \$441,778.
2. Adjustment was made to correct prior year's over accrual of receivable (\$159,594) and deferred revenues of \$1,241 and (\$234,719).
3. Adjustment was made to correct prior year's revenues \$20,498.

Business-type Activities:

1. Adjustment was made to correct over accrual of accounts receivable (\$60) and deferred revenue of (\$1,000) and \$228,785.
2. Adjustment was made to correct prior year's expenses (\$355,051).

Governmental Funds:

General Fund:

1. Adjustments were made to correct prior year's expenditures of \$347,070.
2. Adjustment was made to correct prior year's revenues \$12,497.

Redevelopment and

Housing Grants Fund:

1. Adjustments were made to correct prior year's expenses of \$3,029.
2. Adjustment was made to correct prior year's deferred revenue (\$234,719).

Other Governmental Funds:

1. Adjustment was made to correct prior year's deferred revenue \$1,241.
2. Adjustments were made to correct prior year's expenditures (\$7,093).
3. Adjustment was made to correct prior year's receivables (\$159,594).
4. Adjustment was made to correct prior year's revenues \$8,001.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Proprietary Funds:

Water Fund:

1. Adjustments were made to correct prior year's expense (\$93,500).

Sewer Fund:

1. Adjustment was made to correct prior year's deferred revenue \$228,785.
2. Adjustments were made to correct prior year's expense (\$86,451).

Solid Waste Fund:

1. Adjustments were made to correct prior year's expenses (\$174,100).

Airport Fund:

1. Adjustment was made to correct prior year's receivables (\$60).
2. Adjustment was made to correct prior year's deferred revenue (\$1,000).

Internal Service Fund:

1. Adjustment was made to correct prior year's expenses \$91,679.

G. New Accounting Pronouncements

New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in the statement 75 are effective for the fiscal years beginning after June 15, 2017. The City has not yet determined its effect on the financial statements.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This statement is effective for reporting periods beginning after June 15, 2018. The City has not yet determined its effect on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement is effective for reporting periods beginning after December 15, 2018. The City has not yet determined its effect on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

government financial statements. This statement is effective for reporting periods beginning after December 15, 2017. The City has not yet determined its effect on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is

extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017. The City has not yet determined its effect on the financial statements.

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

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

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

Resolution Number 4-12.

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

Successor agencies are allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

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

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

issue unfavorably to the City.

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

After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2017:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
	\$	\$	\$	\$	\$
Refunding tax allocation bonds	14,210,000	-	(1,145,000)	13,065,000	1,170,000
Add:					
Bond Premium	<u>1,559,349</u>	<u>-</u>	<u>(87,830)</u>	<u>1,471,519</u>	<u>-</u>
Total Bonds	15,769,349	-	(1,232,830)	14,536,519	1,170,000
Debt payable	163,908	-	(53,029)	110,879	54,619
Net OPEB Obligations liability	64,461	-	-	64,461	-
Notes payable	<u>4,787,023</u>	<u>-</u>	<u>(561,503)</u>	<u>4,225,520</u>	<u>635,642</u>
Total	<u>20,784,741</u>	<u>-</u>	<u>(1,847,362)</u>	<u>18,937,379</u>	<u>1,860,261</u>

Tax allocation refunding bonds

In June of 2004 the former Redevelopment Agency of the City of Watsonville 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

In April of 2016 the Successor Agency issued \$11,790,000 2016 Tax Allocation Refunding Bonds, Series A and \$2,420,000 2016 Tax Allocation Refunding Bonds, Taxable Series B for a current refunding of the \$14,190,000 2004 Tax Allocation Bonds Series A and B-1 and \$2,720,000 Tax Allocation Taxable Series B-2 Bonds. The Series A refunding bonds had \$2,965,772 of additional funding and Series B had \$410,577 of additional funding. The refunding was done to reduce future debt service payments. The transaction resulted in an economic gain of \$3,269,616 and a reduction of \$3,856,103 in future debt service payments and accounting loss of \$232,058 which is shown as a deferred outflow of resources to be amortized over the life of the bonds.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

The annual requirements to amortize the loan outstanding as of June 30, 2017 is as follows:

Series A:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2018	365,000	478,100	843,100
2019	375,000	468,825	843,825
2020	1,225,000	444,825	1,669,825
2021	1,265,000	394,825	1,659,825
2022	1,325,000	330,075	1,655,075
2023	1,390,000	262,200	1,652,200
2024	1,465,000	190,825	1,655,825
2025	945,000	130,575	1,075,575
2026	295,000	99,575	394,575
2027	305,000	84,575	389,575
2028	325,000	73,294	398,294
2029	330,000	65,719	395,719
2030	340,000	55,000	395,000
2031	350,000	41,200	391,200
2032	370,000	28,650	398,650
2033	380,000	17,400	397,400
2034	<u>390,000</u>	<u>5,850</u>	<u>395,850</u>
Total	<u>11,440,000</u>	<u>3,171,513</u>	<u>14,611,513</u>

Series B:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2018	805,000	24,450	829,450
2019	<u>820,000</u>	<u>8,200</u>	<u>828,200</u>
Total	<u>1,625,000</u>	<u>32,650</u>	<u>1,657,650</u>

Debt payable

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

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2018	54,619
2019	<u>56,260</u>
Total	<u>110,879</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Net OPEB Obligations

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

Notes Payable

The City and former Agency had several notes payable from the former Agency to the City for various costs and fees associated with the construction of the Civic Plaza as follows:

Parking Garage Loan for Construction Costs	\$3,236,651
Library Project Loan for Construction Costs	\$1,192,579

The State of California deemed these notes as non-enforceable obligation, and the city could not be paid back until a finding of completion was received from the State’s Department of Finance, which the City received on February 21, 2014 and the Successor Agency’s oversight board made a finding that the notes were for legitimate redevelopment purpose. The Oversight Board also made the finding for all the above notes. The Department of Finance again deemed the notes as non-enforceable. During the last fiscal year the City won the litigation and the above notes will be paid back when funds become available. The notes are allowed to add interest based on the State of California Local Agency Investment Fund’s (LAIF) monthly interest rate. Interest has been projected for the debt service at the most recent rate available.

Notes Payable Recap:

Library Project Loan

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2018	635,642	2,458	638,100
2019	<u>302,729</u>	<u>758</u>	<u>303,487</u>
Total	<u>938,371</u>	<u>3,216</u>	<u>941,587</u>

Parking Garage Loan

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2019	288,131	46,482	334,613
2020	630,269	7,831	638,100
2021	631,954	6,146	638,100
2022	633,643	4,457	638,100
2023	635,337	2,763	638,100
2024	<u>467,815</u>	<u>1,065</u>	<u>468,880</u>
Total	<u>3,287,149</u>	<u>68,744</u>	<u>3,355,893</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 (Continued)

Prior period adjustments

In the preparation of the private purpose trust fund, several entries were necessary to adjust net position to begin the fiscal year ending June 30, 2017. The adjustments were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u> <u>Restated</u>
	\$	\$	\$	\$
Beginning Net Position	<u>(17,467,124)</u>	<u>-</u>	<u>(1,655,533)</u>	<u>(15,811,591)</u>

Following are detailed explanations of prior period adjustments:

1. Adjustment of \$1,692,450 was made to correct prior year cash held with fiscal agent and several small adjustments for revenue.

Required Supplementary Information

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
 LAST 3 YEARS*
 JUNE 30, 2017

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
TOTAL PENSION LIABILITY	\$	\$	\$
Service Cost	2,348,593	2,251,567	2,250,229
Interest	8,369,558	8,741,399	9,093,428
Changes of Assumptions	-	(2,194,095)	-
Difference between Expected and Actual Experience	-	(1,088,430)	(1,307,204)
Benefit Payments, Including Refunds of Employee Contributions	(4,554,651)	(4,874,482)	(5,292,339)
Net Change in Total Pension Liability	6,163,500	2,835,959	4,744,114
Total Pension Liability - Beginning	<u>112,697,136</u>	<u>118,860,636</u>	<u>121,696,595</u>
Total Pension Liability - Ending (a)	<u>118,860,636</u>	<u>121,696,595</u>	<u>126,440,709</u>
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	1,750,491	1,881,144	2,288,840
Contributions - Employee	1,087,253	1,064,147	1,145,223
Net Investment Income (2)	14,090,974	2,081,010	501,726
Benefit Payments, Including Refunds of Employee Contributions	(4,554,651)	(4,874,482)	(5,292,339)
Administrative Expense	-	(105,873)	(57,299)
Net Change in Fiduciary Net Position	12,374,067	45,946	(1,413,849)
Plan Fiduciary Net position - Beginning	<u>81,597,739</u>	<u>93,971,806</u>	<u>94,017,752</u>
Plan Fiduciary Net position - Ending (b)	<u>93,971,806</u>	<u>94,017,752</u>	<u>92,603,903</u>
Plan Net Pension Liability/(Asset) - Ending (a) - (b)	24,888,830	27,678,843	33,836,806
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.06%	77.26%	73.24%
Covered payroll	\$ 17,390,545	\$ 17,452,658	\$ 17,680,742
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	143.12%	158.59%	191.38%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014.

This applies for voluntary benefits changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: Change in Discount Rate Assumptions from 7.50% to 7.65%.

(2) Net of administrative expenses.

* Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CONTRIBUTIONS

LAST 3 YEARS*

JUNE 30, 2017

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan.

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	\$	\$	\$
Contractually required contribution (actuarially determined)	1,769,613	2,299,823	2,288,840
Contribution in relation to the actuarially determined contributions	<u>(1,769,613)</u>	<u>(2,299,823)</u>	<u>(2,288,840)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	17,452,658	14,502,437	17,680,742
Contributions as a percentage of covered payroll	10.14%	15.86%	12.95%

Notes to Schedule

Valuation Date: 6/30/2015

Methods and assumptions used to determine contribution rates:

Discount Rate 7.65% @ 6/30/2016
7.65% @ 6/30/2015
7.50% @ 6/30/2014

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

Investment Rate of Return 7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation

Mortality Rate Table (1) Derived using CalPERS' Membership Data for all Funds

Post Retirement Benefit Increase Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

* Fiscal Year 2015 was 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 LAST 3 YEARS*
 JUNE 30, 2017

The following table provides required supplementary information regarding the City's Safety Pension Plan.

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	0.358953%	0.379737%	0.387650%
Proportionate share of the net pension liability	\$ 22,335,737	\$ 26,064,837	\$ 33,543,690
Covered payroll	\$ 10,541,326	\$ 9,190,095	\$ 9,792,080
Proportionate share of the net pension liability as percentage of covered payroll	211.89%	283.62%	342.56%
Plan's total pension liability	\$ 30,829,966,631	\$ 31,771,217,402	\$ 18,961,274,094
Plan's fiduciary net position	\$ 24,607,502,515	\$ 24,907,305,871	\$ 13,782,056,004
Plan fiduciary net position as a percentage of the total pension liability	79.82%	78.40%	72.69%

* Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CONTRIBUTIONS

LAST 3 YEARS*

JUNE 30, 2017

The following table provides required supplementary information regarding the City's Safety Pension Plan.

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	\$	\$	\$
Contractually required contribution (actuarially determined)	2,648,853	2,921,288	3,364,471
Contribution in relation to the actuarially determined contributions	<u>(2,648,853)</u>	<u>(2,921,288)</u>	<u>(3,364,471)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 9,190,095	\$ 9,792,080	\$ 11,557,360
Contributions as a percentage of covered payroll	28.82%	29.83%	29.11%

Notes to Schedule

Valuation Date:	6/30/2015
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.65% @ 6/30/2016 7.65% @ 6/30/2015 7.5% @ 6/30/2014
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

City of Watsonville, California

Nonmajor Governmental Funds

Special Revenue Funds

Gas Tax

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

Narcotics Assets Seizure

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

Business Development

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

Economic Development

Funds held for economic development. The fund receives interest income and loan payoffs that are used to support economic development.

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.

Parks Development

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

(Continued)

City of Watsonville, California

Nonmajor Governmental Funds

Special Revenue Funds

Retirement Tax

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

Parking Garage

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

Measure G

This fund was established in 2014, the Citizens of Watsonville approved an additional sales tax of .5% for seven years to increase funding for public safety.

Abandoned Vehicle

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

Inclusionary Housing

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

(Concluded)

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Special Revenue Funds					
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$
ASSETS:						
Cash and investments	1,194,775	148,591	110,927	30,970	679,981	1,502,728
Receivables:						
Interest	-	-	-	33,370	-	-
Taxes	-	-	-	-	371,460	8,791
Accounts	3,359	-	484	-	-	-
Intergovernmental	182,791	-	-	-	-	-
Advances receivable	-	-	-	-	269,492	98,699
Loans receivable	-	-	-	60,116	-	-
Total Assets	1,380,925	148,591	111,411	124,456	1,320,933	1,610,218
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable	98,098	-	25,230	-	-	952
Accrued personnel costs	4,922	-	-	-	-	2,550
Retentions payable	76,544	-	-	57,298	-	6,707
Due to other funds	-	-	-	-	-	-
Deposits	-	69,719	-	-	-	-
Total Liabilities	179,564	69,719	25,230	57,298	-	10,209
Deferred Inflows of Resources						
Unavailable revenue	182,791	-	18,608	93,486	-	-
Total Deferred Inflows of Resources	182,791	-	18,608	93,486	-	-
Total Liabilities and Deferred Inflows of Resources	362,355	69,719	43,838	150,784	-	10,209
Fund Balances:						
Restricted for:						
Gas tax	1,018,570	-	-	-	-	-
Assets seizure	-	78,872	-	-	-	-
Business development	-	-	67,573	-	-	-
Library	-	-	-	-	1,320,933	-
Parks development	-	-	-	-	-	1,600,009
Retirement tax	-	-	-	-	-	-
Measure G	-	-	-	-	-	-
Inclusionary housing	-	-	-	-	-	-
Unassigned	-	-	-	(26,328)	-	-
Total Fund Balances	1,018,570	78,872	67,573	(26,328)	1,320,933	1,600,009
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	1,380,925	148,591	111,411	124,456	1,320,933	1,610,218

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Special Revenue Funds					TOTAL
	RETIREMENT TAX	PARKING GARAGE	MEASURE G	ABANDONED VEHICLE	INCLUSIONARY HOUSING	
	\$	\$	\$	\$	\$	\$
ASSETS:						
Cash and investments	1,121,121	541	2,452,869	-	1,889,131	9,131,634
Receivables:						
Interest	-	-	-	-	77,393	110,763
Taxes	174,164	-	580,300	15,956	-	1,150,671
Accounts	-	12,212	-	-	-	16,055
Intergovernmental	-	-	54,786	-	-	237,577
Advances receivable	-	-	-	-	214,660	582,851
Loans receivable	-	-	-	-	770,415	830,531
Total Assets	1,295,285	12,753	3,087,955	15,956	2,951,599	12,060,082
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable	-	18,016	53,844	-	-	196,140
Accrued personnel costs	-	-	58,588	-	3,619	69,679
Retention payable	-	-	-	-	-	140,549
Due to other funds	-	682,535	-	38,553	-	721,088
Deposits	-	-	-	-	-	69,719
Total Liabilities	-	700,551	112,432	38,553	3,619	1,197,175
Deferred Inflows of Resources						
Unavailable revenue	-	-	54,786	-	847,808	1,197,479
Total Deferred Inflows of Resources	-	-	54,786	-	847,808	1,197,479
Total Liabilities and Deferred Inflows of Resources	-	700,551	167,218	38,553	851,427	2,394,654
Fund Balances:						
Restricted for:						
Gas tax	-	-	-	-	-	1,018,570
Assets seizure	-	-	-	-	-	78,872
Business development	-	-	-	-	-	67,573
Library	-	-	-	-	-	1,320,933
Parks development	-	-	-	-	-	1,600,009
Retirement tax	1,295,285	-	-	-	-	1,295,285
Measure G	-	-	2,920,737	-	-	2,920,737
Inclusionary housing	-	-	-	-	2,100,172	2,100,172
Unassigned	-	(687,798)	-	(22,597)	-	(736,723)
Total Fund Balances	1,295,285	(687,798)	2,920,737	(22,597)	2,100,172	9,665,428
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	1,295,285	12,753	3,087,955	15,956	2,951,599	12,060,082

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, 2017

	Special Revenue Funds					
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$
REVENUES:						
Taxes	1,008,628	-	-	-	3,301,562	-
Licenses, permits and fees	-	-	78,360	2,392	65,461	326,557
Intergovernmental	309,596	-	-	-	42,644	-
Interest	9,646	507	1,125	-	5,712	8,614
Miscellaneous	43,449	-	5,200	-	1,429	-
Total revenues	<u>1,371,319</u>	<u>507</u>	<u>84,685</u>	<u>2,392</u>	<u>3,416,808</u>	<u>335,171</u>
EXPENDITURES:						
Current:						
General government	-	-	167,146	351,985	-	-
Public safety	-	10,941	-	-	-	-
Housing	-	-	-	-	-	-
Streets	2,322,710	-	-	-	-	-
Culture and recreation	-	-	-	-	3,301,803	149,924
Total expenditures	<u>2,322,710</u>	<u>10,941</u>	<u>167,146</u>	<u>351,985</u>	<u>3,301,803</u>	<u>149,924</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(951,391)</u>	<u>(10,434)</u>	<u>(82,461)</u>	<u>(349,593)</u>	<u>115,005</u>	<u>185,247</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	(91,676)	-
Total other financing sources (uses)	-	-	-	-	<u>(91,676)</u>	-
Net change in fund balances	<u>(951,391)</u>	<u>(10,434)</u>	<u>(82,461)</u>	<u>(349,593)</u>	<u>23,329</u>	<u>185,247</u>
Fund balances, July 1	2,126,624	89,306	148,793	317,908	1,297,604	1,406,791
Prior period adjustments	(156,663)	-	1,241	5,357	-	7,971
Fund balances, July 1, as restated	<u>1,969,961</u>	<u>89,306</u>	<u>150,034</u>	<u>323,265</u>	<u>1,297,604</u>	<u>1,414,762</u>
Fund balances, June 30	<u>1,018,570</u>	<u>78,872</u>	<u>67,573</u>	<u>(26,328)</u>	<u>1,320,933</u>	<u>1,600,009</u>

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue Funds					TOTALS
	RETIREMENT	PARKING	MEASURE G	ABANDONED	INCLUSIONARY	
	TAX	GARAGE		VEHICLE	HOUSING	
	\$	\$	\$	\$	\$	\$
REVENUES:						
Taxes	3,050,456	-	3,546,892	-	-	10,907,538
Licenses, permits and fees	-	169,602	-	61,844	74,063	778,279
Intergovernmental	-	-	122,385	-	-	474,625
Interest	-	-	13,045	-	12,557	51,206
Miscellaneous	-	-	-	-	199,255	249,333
Total revenues	<u>3,050,456</u>	<u>169,602</u>	<u>3,682,322</u>	<u>61,844</u>	<u>285,875</u>	<u>12,460,981</u>
EXPENDITURES:						
Current:						
General government	3,588	184,169	-	-	-	706,888
Public safety	-	-	3,284,108	82,912	-	3,377,961
Housing	-	-	-	-	159,592	159,592
Streets	-	-	-	-	-	2,322,710
Culture and recreation	-	-	-	-	-	3,451,727
Total expenditures	<u>3,588</u>	<u>184,169</u>	<u>3,284,108</u>	<u>82,912</u>	<u>159,592</u>	<u>10,018,878</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,046,868</u>	<u>(14,567)</u>	<u>398,214</u>	<u>(21,068)</u>	<u>126,283</u>	<u>2,442,103</u>
Transfers in	-	93,195	-	40,000	-	133,195
Transfers out	<u>(2,600,000)</u>	<u>(27,843)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,719,519)</u>
Total other financing sources (uses)	<u>(2,600,000)</u>	<u>65,352</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>(2,586,324)</u>
Net change in fund balances	<u>446,868</u>	<u>50,785</u>	<u>398,214</u>	<u>18,932</u>	<u>126,283</u>	<u>(144,221)</u>
Fund balances, July 1	848,417	(731,353)	2,522,523	(38,599)	1,979,080	9,967,094
Prior period adjustments	-	(7,230)	-	(2,930)	(5,191)	(157,445)
Fund balances, July 1, as restated	<u>848,417</u>	<u>(738,583)</u>	<u>2,522,523</u>	<u>(41,529)</u>	<u>1,973,889</u>	<u>9,809,649</u>
Fund balances, June 30	<u>1,295,285</u>	<u>(687,798)</u>	<u>2,920,737</u>	<u>(22,597)</u>	<u>2,100,172</u>	<u>9,665,428</u>

Concluded

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	GAS TAX				NARCOTICS ASSETS SEIZURE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	1,615,000	1,615,000	1,008,628	(606,372)	-	-	-	-
Intergovernmental	3,046,000	3,410,945	309,596	(3,101,349)	-	-	-	-
Interest	6,000	6,000	9,646	3,646	2,500	2,500	507	(1,993)
Miscellaneous	-	-	43,449	43,449	10,000	10,000	-	(10,000)
Total revenues	<u>4,667,000</u>	<u>5,031,945</u>	<u>1,371,319</u>	<u>(3,660,626)</u>	<u>12,500</u>	<u>12,500</u>	<u>507</u>	<u>(11,993)</u>
EXPENDITURES:								
Public safety	-	-	-	-	178,977	178,977	10,941	168,036
Streets	5,068,486	5,544,335	2,322,710	3,221,625	-	-	-	-
Total expenditures	<u>5,068,486</u>	<u>5,544,335</u>	<u>2,322,710</u>	<u>3,221,625</u>	<u>178,977</u>	<u>178,977</u>	<u>10,941</u>	<u>168,036</u>
Net change in fund balances	<u>(401,486)</u>	<u>(512,390)</u>	<u>(951,391)</u>	<u>(439,001)</u>	<u>(166,477)</u>	<u>(166,477)</u>	<u>(10,434)</u>	<u>156,043</u>
Fund balances, July 1	2,126,624	2,126,624	2,126,624	-	89,306	89,306	89,306	-
Prior period adjustments	-	-	(156,663)	(156,663)	-	-	-	-
Fund balances, July 1, as restated	<u>2,126,624</u>	<u>2,126,624</u>	<u>1,969,961</u>	<u>(156,663)</u>	<u>89,306</u>	<u>89,306</u>	<u>89,306</u>	<u>-</u>
Fund balances, June 30	<u>1,725,138</u>	<u>1,614,234</u>	<u>1,018,570</u>	<u>(595,664)</u>	<u>(77,171)</u>	<u>(77,171)</u>	<u>78,872</u>	<u>156,043</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, 2017

	BUSINESS DEVELOPMENT				ECONOMIC 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	70,000	70,000	78,360	8,360	3,000	3,000	2,392	(608)
Interest	-	-	1,125	1,125	-	-	-	-
Miscellaneous	10,000	10,000	5,200	(4,800)	-	-	-	-
Total revenues	80,000	80,000	84,685	4,685	3,000	3,000	2,392	(608)
EXPENDITURES:								
Current:								
General government	179,503	179,503	167,146	12,357	275,000	275,000	351,985	(76,985)
Total expenditures	179,503	179,503	167,146	12,357	275,000	275,000	351,985	(76,985)
Excess (deficiency) of revenues over (under) expenditures	(99,503)	(99,503)	(82,461)	17,042	(272,000)	(272,000)	(349,593)	(77,593)
Net change in fund balances	(99,503)	(99,503)	(82,461)	17,042	(272,000)	(272,000)	(349,593)	(77,593)
Fund balances, July 1	148,793	148,793	148,793	-	317,908	317,908	317,908	-
Prior period adjustments	-	-	1,241	1,241	-	-	5,357	5,357
Fund balances, July 1, as restated	148,793	148,793	150,034	1,241	317,908	317,908	323,265	5,357
Fund balances, June 30	49,290	49,290	67,573	18,283	45,908	45,908	(26,328)	(72,236)

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, 2017

	LIBRARY				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:								
Taxes	3,274,139	3,274,139	3,301,562	27,423	-	-	-	-
Licenses, permits and fees	60,110	60,110	65,461	5,351	105,000	105,000	326,557	221,557
Intergovernmental	45,000	45,000	42,644	(2,356)	-	-	-	-
Interest	25,000	25,000	5,712	(19,288)	7,500	7,500	8,614	1,114
Miscellaneous	7,000	7,000	1,429	(5,571)	-	-	-	-
Total revenues	<u>3,411,249</u>	<u>3,411,249</u>	<u>3,416,808</u>	<u>5,559</u>	<u>112,500</u>	<u>112,500</u>	<u>335,171</u>	<u>222,671</u>
EXPENDITURES:								
Current:								
Culture and recreation	3,522,295	3,522,295	3,301,803	220,492	507,967	507,967	149,924	358,043
Total expenditures	<u>3,522,295</u>	<u>3,522,295</u>	<u>3,301,803</u>	<u>220,492</u>	<u>507,967</u>	<u>507,967</u>	<u>149,924</u>	<u>358,043</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(111,046)</u>	<u>(111,046)</u>	<u>115,005</u>	<u>226,051</u>	<u>(395,467)</u>	<u>(395,467)</u>	<u>185,247</u>	<u>580,714</u>
OTHER FINANCING SOURCES (USES):								
Transfers out	<u>(91,676)</u>	<u>(91,676)</u>	<u>(91,676)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(91,676)</u>	<u>(91,676)</u>	<u>(91,676)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(202,722)</u>	<u>(202,722)</u>	<u>23,329</u>	<u>226,051</u>	<u>(395,467)</u>	<u>(395,467)</u>	<u>185,247</u>	<u>580,714</u>
Fund balances, July 1	1,297,604	1,297,604	1,297,604	-	1,406,791	1,406,791	1,406,791	-
Prior period adjustments	-	-	-	-	-	-	7,971	7,971
Fund balances, July 1, as restated	<u>1,297,604</u>	<u>1,297,604</u>	<u>1,297,604</u>	<u>-</u>	<u>1,406,791</u>	<u>1,406,791</u>	<u>1,414,762</u>	<u>7,971</u>
Fund balances, June 30	<u>1,094,882</u>	<u>1,094,882</u>	<u>1,320,933</u>	<u>226,051</u>	<u>1,011,324</u>	<u>1,011,324</u>	<u>1,600,009</u>	<u>588,685</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, 2017

	RETIREMENT TAX				PARKING GARAGE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	2,600,000	2,600,000	3,050,456	450,456	-	-	-	-
Licenses, permits, and fees	-	-	-	-	210,000	210,000	169,602	(40,398)
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	<u>2,600,000</u>	<u>2,600,000</u>	<u>3,050,456</u>	<u>450,456</u>	<u>210,000</u>	<u>210,000</u>	<u>169,602</u>	<u>(40,398)</u>
EXPENDITURES:								
Current:								
General government	-	-	3,588	(3,588)	186,626	186,626	184,169	2,457
Total expenditures	<u>-</u>	<u>-</u>	<u>3,588</u>	<u>(3,588)</u>	<u>186,626</u>	<u>186,626</u>	<u>184,169</u>	<u>2,457</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,600,000</u>	<u>2,600,000</u>	<u>3,046,868</u>	<u>446,868</u>	<u>23,374</u>	<u>23,374</u>	<u>(14,567)</u>	<u>(37,941)</u>
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	93,195	93,195	93,195	-
Transfers out	<u>(2,600,000)</u>	<u>(2,600,000)</u>	<u>(2,600,000)</u>	<u>-</u>	<u>(27,843)</u>	<u>(27,843)</u>	<u>(27,843)</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,600,000)</u>	<u>(2,600,000)</u>	<u>(2,600,000)</u>	<u>-</u>	<u>65,352</u>	<u>65,352</u>	<u>65,352</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>446,868</u>	<u>446,868</u>	<u>88,726</u>	<u>88,726</u>	<u>50,785</u>	<u>(37,941)</u>
Fund balances, July 1	848,417	848,417	848,417	-	(731,353)	(731,353)	(731,353)	-
Prior period adjustments	-	-	-	-	-	-	(7,230)	(7,230)
Fund balances, July 1, as restated	<u>848,417</u>	<u>848,417</u>	<u>848,417</u>	<u>-</u>	<u>(731,353)</u>	<u>(731,353)</u>	<u>(738,583)</u>	<u>(7,230)</u>
Fund balances, June 30	<u>848,417</u>	<u>848,417</u>	<u>1,295,285</u>	<u>446,868</u>	<u>(642,627)</u>	<u>(642,627)</u>	<u>(687,798)</u>	<u>(45,171)</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, 2017

	MEASURE G				ABANDONED VEHICLE			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final			Original	Final		
	\$	\$	\$	\$	\$	\$	\$	
REVENUES:								
Taxes	2,890,440	2,890,440	3,546,892	656,452	-	-	-	-
Intergovernmental	125,000	125,000	122,385	(2,615)	-	-	-	-
Licenses, permits and fees	-	-	-	-	60,000	60,000	61,844	1,844
Interest	2,880	2,880	13,045	10,165	-	-	-	-
Total revenues	<u>3,018,320</u>	<u>3,018,320</u>	<u>3,682,322</u>	<u>664,002</u>	<u>60,000</u>	<u>60,000</u>	<u>61,844</u>	<u>1,844</u>
EXPENDITURES:								
Current:								
Public safety	4,342,218	4,342,218	3,284,108	1,058,110	82,912	82,912	82,912	-
Total expenditures	<u>4,342,218</u>	<u>4,342,218</u>	<u>3,284,108</u>	<u>1,058,110</u>	<u>82,912</u>	<u>82,912</u>	<u>82,912</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,323,898)</u>	<u>(1,323,898)</u>	<u>398,214</u>	<u>1,722,112</u>	<u>(22,912)</u>	<u>(22,912)</u>	<u>(21,068)</u>	<u>1,844</u>
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	40,000	40,000	40,000	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Net change in fund balances	<u>(1,323,898)</u>	<u>(1,323,898)</u>	<u>398,214</u>	<u>1,722,112</u>	<u>17,088</u>	<u>17,088</u>	<u>18,932</u>	<u>1,844</u>
Fund balances, July 1	2,522,523	2,522,523	2,522,523	-	(38,599)	(38,599)	(38,599)	-
Prior period adjustments	-	-	-	-	-	-	(2,930)	(2,930)
Fund balances, July 1, as restated	<u>2,522,523</u>	<u>2,522,523</u>	<u>2,522,523</u>	<u>-</u>	<u>(38,599)</u>	<u>(38,599)</u>	<u>(41,529)</u>	<u>(2,930)</u>
Fund balances, June 30	<u>1,198,625</u>	<u>1,198,625</u>	<u>2,920,737</u>	<u>1,722,112</u>	<u>(21,511)</u>	<u>(21,511)</u>	<u>(22,597)</u>	<u>(1,086)</u>

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	INCLUSIONARY HOUSING			Variance With Final Budget - Positive (Negative) \$
	Budgeted Amounts		Actual	
	Original	Final		
	\$	\$	\$	
REVENUES:				
Licenses, permits and fees	50,000	50,000	74,063	24,063
Interest	20,000	20,000	12,557	(7,443)
Miscellaneous	10,000	10,000	199,255	189,255
Total revenues	<u>80,000</u>	<u>80,000</u>	<u>285,875</u>	<u>205,875</u>
EXPENDITURES:				
Current:				
Housing	333,092	583,092	159,592	423,500
Total expenditures	<u>333,092</u>	<u>583,092</u>	<u>159,592</u>	<u>423,500</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(253,092)</u>	<u>(503,092)</u>	<u>126,283</u>	<u>629,375</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(50,000)	(50,000)	-	50,000
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>50,000</u>
Net change in fund balance	<u>(303,092)</u>	<u>(553,092)</u>	<u>126,283</u>	<u>679,375</u>
Fund balance, July 1	1,979,080	1,979,080	1,979,080	-
Prior period adjustments	-	-	(5,191)	(5,191)
Fund balance, July 1, as restated	<u>1,979,080</u>	<u>1,979,080</u>	<u>1,973,889</u>	<u>(5,191)</u>
Fund balance, June 30	<u><u>1,675,988</u></u>	<u><u>1,425,988</u></u>	<u><u>2,100,172</u></u>	<u><u>674,184</u></u>

CITY OF WATSONVILLE, CALIFORNIA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Intergovernmental	74,652	74,652	76,166	1,514
Special assessment	78,840	78,840	60,030	(18,810)
Total revenues	<u>153,492</u>	<u>153,492</u>	<u>136,196</u>	<u>(17,296)</u>
EXPENDITURES:				
Debt service:				
Principal	500,228	500,228	477,854	22,374
Interest and fiscal charges	174,415	174,415	173,436	979
Total expenditures	<u>674,643</u>	<u>674,643</u>	<u>651,290</u>	<u>23,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(521,151)</u>	<u>(521,151)</u>	<u>(515,094)</u>	<u>6,057</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	521,151	521,151	521,152	1
Total other financing sources (uses)	<u>521,151</u>	<u>521,151</u>	<u>521,152</u>	<u>1</u>
Net change in fund balance	-	-	6,058	6,058
Fund balance, July 1	<u>125,043</u>	<u>125,043</u>	<u>125,043</u>	-
Fund balance, June 30	<u>125,043</u>	<u>125,043</u>	<u>131,101</u>	<u>6,058</u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	13,970,752	13,970,752
Buildings and improvements	134,522,840	134,468,036
Machinery and equipment	13,315,871	12,889,348
Infrastructure	29,538,251	28,609,887
Construction in progress	<u>5,214,402</u>	<u>1,918,003</u>
Total Governmental Funds Capital Assets	<u><u>196,562,116</u></u>	<u><u>191,856,026</u></u>
 INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE		
General fund	74,192,847	69,486,757
Other special revenue funds	112,150,809	112,150,809
Capital leases	<u>10,218,460</u>	<u>10,218,460</u>
Total Governmental Funds Capital Assets	<u><u>196,562,116</u></u>	<u><u>191,856,026</u></u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2017

Function and Activity	Land	Buildings	Improvements	Machinery and Equipment	Infrastructure	Construction in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
City Manager	-	-	-	15,352	-	-	15,352
City Clerk	-	-	-	70,723	-	-	70,723
Community Develop.	-	-	-	147,969	-	-	147,969
Finance	-	-	-	567,159	-	-	567,159
Fire	-	974,576	264,858	2,037,712	-	728,723	4,005,869
Library	-	964,278	77,700	3,379,257	-	-	4,421,235
Nondepartmental	13,970,752	79,723,332	6,635,236	294,429	22,431,492	-	123,055,241
Parks and Recreation	-	4,064,071	3,851,382	1,097,372	-	1,228,562	10,241,387
Police	-	3,034,469	172,100	2,406,382	-	-	5,612,951
Public Works	-	31,006,519	3,754,319	3,299,516	7,106,759	3,257,117	48,424,230
Total Governmental Funds Capital Assets	<u>13,970,752</u>	<u>119,767,245</u>	<u>14,755,595</u>	<u>13,315,871</u>	<u>29,538,251</u>	<u>5,214,402</u>	<u>196,562,116</u>

CITY OF WATSONVILLE, CALIFORNIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>Function and Activity</u>	Capital Assets	<u>Additions</u>	<u>Deletions</u>	Capital Assets
	<u>Assets</u>			<u>Assets</u>
	<u>June 30, 2016</u>			<u>June 30, 2017</u>
	\$	\$	\$	\$
City Manager	15,352	-	-	15,352
City Clerk	59,083	11,639	-	70,722
Community Develop.	104,417	43,552	(22,770)	125,199
Finance	527,924	39,235	-	567,159
Fire	3,228,074	777,794	-	4,005,868
Library	4,421,235		-	4,421,235
Nondepartmental	122,709,026	2,902,956	-	125,611,982
Parks and Recreation	10,045,242	196,144	-	10,241,386
Police	5,205,640	407,311	(83,423)	5,529,528
Public Works	<u>45,540,033</u>	<u>454,802</u>	<u>(21,150)</u>	<u>45,973,685</u>
Total Government Funds Capital Assets	<u><u>191,856,026</u></u>	<u><u>4,833,433</u></u>	<u><u>(127,343)</u></u>	<u><u>196,562,116</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.

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Financial Trends	117
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	123
These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	127
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	131
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	134
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 otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities										
Net investment in capital assets	109,668	116,232	114,050	112,462	128,634	121,354	118,302	114,148	110,806	111,256
Restricted	31,184	23,467	31,320	46,586	39,086	41,689	42,945	44,188	16,754	16,496
Unrestricted	5,924	14,074	2,737	(18,060)	(7,011)	(4,812)	(2,634)	(39,888)	(7,184)	(3,294)
Total governmental activities net position	<u>146,776</u>	<u>153,773</u>	<u>148,107</u>	<u>140,988</u>	<u>160,709</u>	<u>158,231</u>	<u>158,613</u>	<u>118,448</u>	<u>120,376</u>	<u>124,458</u>
Business-type activities										
Net investment in capital assets	83,945	95,129	98,788	101,914	99,867	100,375	99,277	98,484	94,655	96,034
Restricted	-	-	-	2,834	-	-	-	-	-	-
Unrestricted	32,403	21,837	16,476	4,612	8,671	6,562	10,865	(2,581)	2,587	5,524
Total business-type activities net position	<u>116,348</u>	<u>116,966</u>	<u>115,264</u>	<u>109,360</u>	<u>108,538</u>	<u>106,937</u>	<u>110,142</u>	<u>95,903</u>	<u>97,242</u>	<u>101,558</u>
Primary government										
Net investment in capital assets	193,613	211,361	212,838	214,376	228,501	221,729	217,579	212,632	205,461	207,290
Restricted	31,184	23,467	31,320	49,420	39,086	41,689	42,945	44,188	16,754	16,496
Unrestricted	38,327	35,911	19,213	(13,448)	1,660	1,750	8,231	(42,469)	(4,597)	2,230
Total primary government net position	<u>263,124</u>	<u>270,739</u>	<u>263,371</u>	<u>250,348</u>	<u>269,247</u>	<u>265,168</u>	<u>268,755</u>	<u>214,351</u>	<u>217,618</u>	<u>226,016</u>

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Expenses:										
Governmental activities:										
General government	13,913	10,777	9,100	8,010	7,729	7,140	11,773	5,494	7,151	8,257
Public safety	24,624	24,161	22,752	22,258	18,888	21,249	23,020	25,716	27,751	27,382
Housing	2,879	1,413	8,734	6,118	3,091	1,543	820	1,298	1,389	2,318
Highways and streets	5,643	4,686	6,656	7,775	8,926	7,110	6,708	4,697	3,043	6,348
Culture and recreation	5,319	5,509	7,393	7,498	7,510	7,511	7,334	7,916	8,613	7,817
Interest on long term debt	3,602	3,384	3,269	3,089	1,153	346	189	132	112	146
Total government activities	<u>55,980</u>	<u>49,930</u>	<u>57,904</u>	<u>54,748</u>	<u>47,297</u>	<u>44,899</u>	<u>49,844</u>	<u>45,253</u>	<u>48,059</u>	<u>52,268</u>
Business-type activities:										
Water	10,295	13,871	11,483	11,187	11,213	11,249	11,001	11,583	15,537	13,851
Sewer	8,517	8,886	9,335	9,342	9,842	9,863	9,298	10,741	10,731	10,272
Solid Waste	8,373	8,873	8,460	8,165	8,583	8,557	8,699	10,136	9,181	10,976
Airport	2,642	2,863	2,364	2,520	2,539	3,347	2,888	2,580	2,225	2,684
Fiber Optic	-	-	-	-	-	-	-	-	8	41
Total business-type activities	<u>29,827</u>	<u>34,493</u>	<u>31,642</u>	<u>31,214</u>	<u>32,177</u>	<u>33,016</u>	<u>31,886</u>	<u>35,040</u>	<u>37,682</u>	<u>37,824</u>
Total primary government	<u>85,807</u>	<u>84,423</u>	<u>89,546</u>	<u>85,962</u>	<u>79,474</u>	<u>77,915</u>	<u>81,730</u>	<u>80,293</u>	<u>85,741</u>	<u>90,092</u>
Program Revenues:										
Governmental activities:										
Charges for services:										
General government	3,985	3,894	4,768	4,177	3,095	3,489	9,249	5,488	5,524	8,426
Public safety	1,550	2,068	1,793	1,556	1,703	1,623	1,549	1,396	1,853	1,780
Housing	3,960	477	512	3,612	903	97	1,619	391	-	675
Highways and streets	3,583	2,779	2,757	3,586	16	1,579	2,501	1,585	1,858	2,284
Culture and recreation	613	3,632	1,029	697	1,165	739	827	1,330	833	952
Operating grants and contributions	12,850	5,220	5,311	3,443	6,906	4,926	2,657	2,393	3,590	3,310
Capital grants and contributions	3,436	1,737	2,732	2,546	962	-	-	-	-	-
Total governmental activities program revenues	<u>29,977</u>	<u>19,807</u>	<u>18,902</u>	<u>19,617</u>	<u>14,750</u>	<u>12,453</u>	<u>18,402</u>	<u>12,583</u>	<u>13,658</u>	<u>17,427</u>
Business-type activities:										
Charges for services:										
Water	25,460	12,884	9,089	8,513	10,119	9,964	12,363	12,075	12,756	14,617
Sewer	6,348	6,449	7,557	10,140	8,782	9,128	10,864	10,046	14,307	12,069
Solid Waste	8,689	7,798	7,890	8,521	8,712	8,952	9,580	10,471	10,746	11,225
Airport	2,558	2,239	2,057	1,973	2,229	2,254	1,844	1,956	2,159	1,937
Fiber Optic	-	-	-	-	-	-	-	-	23	44
Operating grants and contributions	811	669	1,046	1,828	990	784	603	901	759	1,373
Capital grants and contributions	6,309	1,393	2,018	128	172	994	1,156	590	659	1,104
Total business-type activities program revenues	<u>50,175</u>	<u>31,432</u>	<u>29,657</u>	<u>31,103</u>	<u>31,004</u>	<u>32,076</u>	<u>36,410</u>	<u>36,039</u>	<u>41,409</u>	<u>42,369</u>

Continued

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net (expense) / revenue										
Governmental activities	(26,003)	(30,318)	(39,001)	(35,132)	(32,547)	(32,448)	(31,442)	(32,670)	(34,401)	(34,840)
Business-type activities	20,348	(3,061)	(1,985)	(111)	(1,174)	(939)	4,525	999	3,727	4,544
Total primary government net expense	<u>(5,655)</u>	<u>(33,379)</u>	<u>(40,986)</u>	<u>(35,243)</u>	<u>(33,721)</u>	<u>(33,387)</u>	<u>(26,917)</u>	<u>(31,671)</u>	<u>(30,674)</u>	<u>(30,296)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	21,352	20,759	18,082	17,380	13,825	12,383	12,090	11,868	12,846	13,300
Sales taxes	11,165	9,969	9,207	10,101	9,774	9,276	11,436	13,988	16,693	16,083
Utility users taxes	2,955	2,775	2,711	2,938	2,934	3,068	3,029	3,437	3,183	3,679
Franchise taxes	157	159	401	606	365	417	365	404	456	471
Other taxes	1,188	977	961	1,075	708	1,069	1,120	1,295	1,457	1,792
Intergovernmental revenue not restricted	1,195	1,051	1,299	1,803	1,255	1,235	1,686	1,475	1,120	1,009
Transfers	-	-	-	-	-	171	211	226	232	308
Unrestricted investment earnings	1,441	1,126	1,245	873	2,190	2,173	1,890	1,916	2,098	2,218
Total governmental activities	<u>39,453</u>	<u>36,816</u>	<u>33,906</u>	<u>34,776</u>	<u>31,051</u>	<u>29,792</u>	<u>31,827</u>	<u>34,609</u>	<u>38,085</u>	<u>38,860</u>
Business-type activities:										
Transfers	-	-	-	-	-	(171)	(211)	(226)	(231)	(308)
Unrestricted investment earnings	2,142	3,780	455	1,116	724	291	263	269	201	206
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Total business-type activities	<u>2,142</u>	<u>3,780</u>	<u>455</u>	<u>1,116</u>	<u>724</u>	<u>120</u>	<u>52</u>	<u>43</u>	<u>(30)</u>	<u>(102)</u>
Total primary government	<u>41,595</u>	<u>40,596</u>	<u>34,361</u>	<u>35,892</u>	<u>31,775</u>	<u>29,912</u>	<u>31,879</u>	<u>34,652</u>	<u>38,055</u>	<u>38,758</u>
Change in net position before extraordinary item										
Governmental activities	13,450	6,498	(5,095)	(356)	(1,496)	(2,656)	385	1,939	3,683	4,020
Business-type activities	22,490	719	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696	4,442
Total primary government	<u>35,940</u>	<u>7,217</u>	<u>(6,625)</u>	<u>649</u>	<u>(1,946)</u>	<u>(3,475)</u>	<u>4,962</u>	<u>2,982</u>	<u>7,379</u>	<u>8,462</u>
Extraordinary items										
Governmental activities	-	-	-	-	21,010	-	-	-	-	-
Total primary government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position										
Governmental activities	13,450	6,498	(5,095)	(356)	19,514	(2,656)	385	1,939	3,683	4,020
Business-type activities	22,490	719	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696	4,442
Total primary government	<u>35,940</u>	<u>7,217</u>	<u>(6,625)</u>	<u>649</u>	<u>19,064</u>	<u>(3,475)</u>	<u>4,962</u>	<u>2,982</u>	<u>7,379</u>	<u>8,462</u>

Concluded

CITY OF WATSONVILLE, CALIFORNIA

**Fund Balances of Governmental Funds
Last Ten Fiscal Years**
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General fund										
Nonspendable	N/A	N/A	N/A	69	44	65	56	35	3,365	2,965
Restricted	5,407	2,749	2,749	-	-	-	-	-	-	-
Unassigned	1,244	72	(852)	1,530	4,305	4,428	1,881	4,595	4,228	6,057
Total general fund	<u>6,651</u>	<u>2,821</u>	<u>1,897</u>	<u>1,599</u>	<u>4,349</u>	<u>4,493</u>	<u>1,937</u>	<u>4,630</u>	<u>7,593</u>	<u>9,022</u>
All other governmental funds										
Restricted, reported in										
Special revenue funds	10,379	15,281	11,757	10,483	12,158	12,069	12,021	14,566	18,216	17,880
Debt service funds	5,970	8,118	6,394	3,064	932	87	79	72	125	131
Unassigned	-	-	-	(4,110)	(1,967)	(1,021)	(910)	(1,069)	(770)	(740)
Total all other governmental funds	<u>16,349</u>	<u>23,399</u>	<u>18,151</u>	<u>13,547</u>	<u>11,123</u>	<u>11,135</u>	<u>11,190</u>	<u>13,569</u>	<u>17,571</u>	<u>17,271</u>

CITY OF WATSONVILLE, CALIFORNIA

**Net Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years**

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Taxes	38,012	35,781	32,660	33,903	28,860	27,448	29,725	32,466	35,754	36,198
Licenses, permits, and fees	4,716	4,221	2,970	3,506	3,272	2,757	4,855	5,248	5,795	5,885
Intergovernmental	15,995	8,889	5,608	4,461	7,670	4,530	3,032	2,458	3,336	3,410
Charges for services	3,949	3,581	4,326	5,243	4,773	4,704	2,447	2,458	2,945	2,770
Fines	608	666	984	757	804	588	622	552	690	737
Interest	2,463	1,783	1,650	1,127	2,344	2,309	2,084	2,076	2,168	2,435
Special assessment	156	144	147	112	172	229	92	91	77	60
Miscellaneous	4,203	3,519	1,929	449	956	475	825	1,995	2,810	1,871
Total revenues	70,102	58,584	50,274	49,558	48,851	43,040	43,682	47,344	53,575	53,366
Expenditures										
Current:										
General government	8,937	10,924	7,567	6,021	5,594	6,407	10,447	5,574	6,989	7,556
Public safety	16,415	20,807	21,738	20,250	18,473	20,353	20,406	22,707	24,860	24,271
Housing	1,933	1,244	8,720	5,919	3,191	1,566	820	1,298	1,389	2,318
Streets	3,647	3,913	6,084	6,844	8,598	6,509	5,972	4,252	1,672	5,772
Culture and recreation	3,156	4,162	6,039	5,745	6,152	6,051	6,505	7,172	7,090	7,079
Capital outlay	37,607	8,997	417	1,877	3,929	1,134	1,581	817	3,286	4,833
Debt service:										
Principal	1,828	1,877	1,993	8,549	2,139	1,381	439	495	429	478
Interest and fiscal charges	3,602	3,436	3,259	3,086	1,267	299	195	159	183	173
Total expenditures	77,125	55,360	55,817	58,291	49,343	43,700	46,365	42,474	45,898	52,480
Excess (deficiency) of revenues over (under) expenditures	(7,023)	3,224	(5,543)	(8,733)	(492)	(660)	(2,683)	4,870	7,677	886
Other financing sources (uses)										
Bond/note proceeds	-	-	-	-	3,014	695	191	-	-	-
Transfers in	7,916	7,169	9,460	18,321	5,883	4,388	3,238	3,340	3,692	3,562
Transfers out	(7,916)	(7,169)	(9,460)	(18,321)	(5,883)	(4,217)	(3,309)	(3,150)	(3,496)	(3,290)
Total other financing sources (uses)	-	-	-	-	3,014	866	120	190	196	272
Net change in fund balances before extraordinary items	(7,023)	3,224	(5,543)	(8,733)	2,522	206	(2,563)	5,060	7,873	1,158
Extraordinary items	-	-	-	-	(228)	-	-	-	-	-
Net change in fund balances	(7,023)	3,224	(5,543)	(8,733)	2,294	206	(2,563)	5,060	7,873	1,158
Debt service as a percentage of noncapital expenditures	15.9%	12.9%	10.5%	26.0%	** 8.1%	** 4.1%	** 1.4%	1.6%	1.5%	1.4%

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

CITY OF WATSONVILLE, CALIFORNIA

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

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

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$
2008	21,352	11,165	157	2,955	1,188	36,817
2009	20,850	9,969	159	2,775	977	34,730
2010	18,082	9,207	401	2,711	961	31,362
2011	13,825	9,774	606	2,934	1,075	28,214
2012	13,825	9,774	365	2,934	708	27,606
2013	12,383	9,276	417	3,068	1,069	26,213
2014	12,090	11,436	365	3,029	1,120	28,040
2015	11,868	13,988	404	3,437	1,295	30,992
2016	12,846	16,693	455	3,183	1,457	34,634
2017	13,300	16,083	471	3,679	1,792	35,325

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property	Unsecured Property	Less: Tax Exempt Property	Taxable Assessed Value	Total Direct Tax Rate (1)	Estimated Actual Taxable Value	Assessed Value as a % of Actual Taxable Value
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
2008	2,625,675	531,301	104,505	322,921	228,186	150,749	3,661,839	1.13	3,661,839	1.00
2009	2,526,547	555,128	106,765	335,411	243,733	156,713	3,610,871	1.13	3,610,871	1.00
2010	2,105,051	572,622	111,366	333,863	233,020	146,407	3,209,515	1.14	3,209,515	1.00
2011	2,060,427	570,451	109,662	330,169	220,499	162,368	3,128,840	1.14	3,128,840	1.00
2012	2,072,140	566,131	104,236	332,645	211,702	169,521	3,117,333	1.15	3,117,333	1.00
2013	2,025,747	565,486	102,758	336,060	217,213	177,934	3,069,330	1.15	3,069,330	1.00
2014	2,091,245	544,645	103,080	329,813	212,372	171,985	3,109,170	1.18	3,109,170	1.00
2015	2,316,558	548,165	106,401	350,110	231,586	185,687	3,367,133	1.18	3,367,133	1.00
2016	2,456,187	563,026	115,344	361,791	235,517	200,675	3,531,190	1.18	3,531,190	1.00
2017	2,606,044	626,252	135,130	394,814	229,211	229,936	3,761,515	1.16	3,761,515	1.00

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

CITY OF WATSONVILLE, CALIFORNIA

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

<u>Year</u>	<u>Basic Countywide Levy</u>	<u>School Districts</u>	<u>Retirement</u>	<u>Total</u>
2008	1.000	0.055	0.077	1.132
2009	1.000	0.060	0.077	1.137
2010	1.000	0.066	0.077	1.143
2011	1.000	0.066	0.077	1.143
2012	1.000	0.071	0.077	1.148
2013	1.000	0.075	0.077	1.152
2014	1.000	0.109	0.077	1.186
2015	1.000	0.098	0.077	1.175
2016	1.000	0.101	0.077	1.178
2017	1.000	0.086	0.077	1.163

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

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2017
(amounts expressed in thousands)

	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$		%	\$		%
Kim Family Enterprise LLC	59,803	1	1.59			0.25
Fox Racing Shox	39,667	2	1.05	16,147	6	0.46
Wri Freedom Center LP	29,985	3	0.80	11,650	9	0.33
Terminal Freezers LLC	22,373	4	0.59	16,201	5	0.46
Pajaro Hills Retail LLC	21,634	5	0.58	10,845	10	0.31
Best Carl E	20,485	6	0.54	15,895	7	0.45
Target Stores	18,924	7	0.50	14,316	8	0.41
Watsonville Freeholders	16,732	8	0.44			0.27
Nmsbpcslhdb	16,560	9	0.44			0.24
Freedom Assoc LLC	16,483	10	0.44	23,006	2	0.65
Ow George Jr Trustee				23,044	1	0.65
Allen Richard H Successor Trus				16,275	4	0.46
Harvest Drive Properties LLC				19,575	3	0.55
Totals	<u>262,646</u>		<u>6.97</u>	<u>203,534</u>		<u>5.76</u>

Source: MBIA Muni Services Company

CITY OF WATSONVILLE, CALIFORNIA

Property Tax Collection Last Ten Fiscal Years

Fiscal Year	Total * Tax Levy \$	Current Tax * Collections \$	Percent of Levy Collected	Supplemental Tax Collections \$	Delinquent Tax * Collections \$	Total Tax Collections \$
2008	7,911,034	7,911,034	100%	248,176	-	8,159,210
2009	7,431,394	7,431,394	100%	100,385	-	7,531,779
2010	6,621,626	6,621,626	100%	32,949	-	6,654,575
2011	6,314,307	6,314,307	100%	37,941	-	6,352,248
2012	6,445,789	6,445,789	100%	59,830	-	6,505,619
2013	7,125,579	7,125,579	100%	30,475	-	7,156,054
2014	8,242,044	8,242,044	100%	69,092	-	8,311,136
2015	7,837,187	7,837,187	100%	112,079	-	7,949,266
2016	7,801,004	7,801,004	100%	177,264	-	7,978,268
2017	8,615,411	8,615,411	100%	200,484	-	8,815,895

Source: City of Watsonville

* Property tax collection equals property tax collected due to agreement with the County of Santa Cruz. With this agreement the City does not receive any Delinquent tax collection.

CITY OF WATSONVILLE, CALIFORNIA

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

(amounts expressed in thousands, except per capita amount)

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
	<u>General Obligation Debt</u>	<u>Special Assessment Debt</u>	<u>Capital Leases</u>	<u>Revenue Bonds</u>	<u>General Obligation Debt</u>	<u>Capital Leases</u>			
	\$	\$	\$	\$	\$	\$			
2008	26,399	962	4,824	41,970	-	2,036	76,191	N/A	1.474
2009	25,984	868	3,934	39,247	-	1,726	71,759	8.63%	1.392
2010	25,003	773	3,017	37,937	-	1,400	68,130	8.36%	1.322
2011	24,658	674	2,070	33,311	3,519	-	64,232	8.01%	1.253
2012*	4,800	575	1,087	32,237	2,606	-	41,305	5.95%	0.800
2013	5,241	467	86	31,064	5,321	-	42,179	5.81%	0.817
2014	5,082	379	-	30,313	8,181	-	43,955	4.90%	0.852
2015	4,676	290	-	29,057	11,124	-	45,147	5.22%	0.875
2016**	4,254	214	-	677	347	-	5,492	0.50%	0.104
2017	3,819	149	-	461	469	-	4,898	0.50%	0.092

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 128 for the personal income and population data.

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

** Water Revenue Bonds were removed on 6/30/2016

CITY OF WATSONVILLE, CALIFORNIA

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

Fiscal Year	General Obligation Debt \$	Less: Amounts Available in Debt Service Fund \$	Total \$	Percentage of Estimated Actual Taxable Value of Property	Per Capita \$
2008	25,984	858	25,126	0.69%	206
2009	25,003	887	24,116	0.67%	214
2010	24,658	894	23,764	0.74%	218
2011	4,800	915	3,885	0.12%	1,319
2012	5,241	932	4,309	0.14%	1,198
2013	5,082	87	4,995	0.16%	1,033
2014	4,676	79	4,597	0.15%	1,123
2015	4,676	72	4,604	0.15%	1,121
2016	4,254	125	4,129	0.14%	1,250
2017	3,819	131	3,688	0.10%	1,438

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 123 for estimated actual property value data.

Population data can be found in the Schedule of Demographic and Economic Statistics on page 131.

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	142,972	135,408	120,357	117,333	122,989	121,772	123,043	133,232	139,945	149,679
Total net debt applicable to limit	26,399	25,984	25,003	24,658	4,800	5,241	5,082	4,676	4,129	3,687
Legal debt margin	<u>140,964</u>	<u>109,873</u>	<u>94,356</u>	<u>90,605</u>	<u>117,136</u>	<u>114,555</u>	<u>118,367</u>	<u>128,556</u>	<u>135,816</u>	<u>145,992</u>
Total net debt applicable to the limit as a percentage of debt limit	18.464%	19.189%	20.774%	21.015%	3.903%	4.304%	4.130%	3.510%	2.950%	2.463%

Legal Debt Margin Calculation for Fiscal Year 2017

Assessed value	\$ 3,761,515
Add back: exempt real property	<u>229,936</u>
Total assessed value	3,991,451
Debt Limit = 3.75% of assessed valuation	149,679
Debt applicable to limit	3,818
Less: Amount set aside for repayment of general obligation debt	<u>131</u>
Total net debt applicable to limit	<u>3,687</u>
Legal debt margin	<u>\$ 145,992</u>

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

Computation of Direct and Overlapping Bonded Debt June 30, 2017

(amounts expressed in thousands, except per capita amount)

Jurisdiction	Total Debt Outstanding	Percentage Applicable	Estimated Share of Overlapping Debt
	\$		\$
Direct Debt:			
City of Watsonville	3,958	100%	3,958
Total of Direct Debt			<u><u>3,958</u></u>
Overlapping Tax and Assessment Debt:			
Cabrillo Joint Community College District	115,229	9.22%	10,624
Pajaro Valley Unified School District	154,854	26.62%	41,214
Santa Cruz County Certificates of Participations	68,805	9.29%	6,391
Santa Cruz County Office of Education	9,197	9.29%	854
Total Overlapping Debt	<u>348,085</u>		<u>59,083</u>
Total Direct and Overlapping Bonded Debt			<u><u>63,041</u></u>

Percentage of overlapping agency's assessed valuation located within boundaries of the city.
Share of Santa Cruz County Emergency Communications Center obligations.
Excludes postretirement liability.

Source: California Municipal Statistics, Inc.

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>
2008	51,703	N/A	N/A	28.1	21,619	14.00%
2009	51,555	886,385	17.193	28.9	21,024	21.60%
2010	51,916	889,425	17.132	27.3	19,381	23.40%
2011	51,243	887,062	17.311	27.3	19,542	22.40%
2012	51,611	859,308	16.650	29.9	19,914	20.50%
2013	51,612	873,974	16.934	29.2	20,001	19.40%
2014	52,508	896,824	17.080	29.7	20,362	19.30%
2015	52,087	864,719	16.601	29	20,438	19.20%
2016	52,891	934,271	17.664	30	20,354	19.20%
2017	53,015	981,527	18.514	30	20,400	19.20%

Source: California Municipal Statistics, Inc.

N/A - Information was not available for this item.

CITY OF WATSONVILLE, CALIFORNIA

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

	<u>2017</u>			<u>2008</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	4,316	1	16.93%	2,765	1	15.89%
Monterey Mushrooms Inc.	988	2	3.87%			
Smith & Vandiver	730	3	2.86%			
Watsonville Community Hospital	710	4	2.78%	701	2	4.03%
Granite Construction	455	5	1.78%	200	8	1.15%
City of Watsonville *	395	6	1.55%	398	4	2.29%
Fox Factory	370	7	1.45%	300	5	1.72%
Salud Para La Gente	367	8	1.44%			
West Marine Products	300	9	1.18%	491	3	2.82%
S Martinelli & Co.	260	10	1.02%	260	6	1.49%
Target				211	7	1.21%
Home Depot				169	9	0.97%
Couch Distributing				160	10	0.92%
Total	<u>8,891</u>		<u>34.87%</u>	<u>5,655</u>		<u>32.50%</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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	7	7	6	6	7	6	6	7	7	7
City Clerk	4	4	4	4	4	3	3	3	3	4
Community Development	19	16	16	15	16	13	14	13	11.5	12
Finance	25	25	24	22	22	22	17	16	16	16
Fire	40	40	36	36	36	36	35	41	41	40
Police:										
Officers	73	75	74	70	70	73	68	64	67.2	66
Civilians	21	21	19	16	18	19	17	22	26	30
Library	26	25	25	24	24	29	29	29	27.41	27
Parks & Community Services	38	37	33	28	30	27	27	27	25.88	27
Public Works	26	24	22	17	17	16	16	16	14	14
Airport	7	7	8	8	8	9	9	9	9	9
LLMAD	1	1	1	1	1	1	1	1	1	1
Parking Garage	2	3	3	2	0	0	0	0	0	0
Redevelopment and Housing	8	8	8	7	10	4	4	4	5.2	5
Solid Waste	37	36	35	34	34	37	38	36	44	46
Wastewater	38	38	41	42	41	44	46	47	49	53
Water	27	27	28	30	30	27	31	34	35	37
	399	394	383	362	368	366	361	369	382.2	394

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

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

Source: City of Watsonville's Biennial Budget documents.

CITY OF WATSONVILLE, CALIFORNIA

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

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Government:										
City Council meetings	21	27	23	24	25	24	22	27	19	21
Resolutions processed	243	232	186	209	158	169	153	181	199	187
Recruitments	29	25	12	21	36	29	52	46	59	66
Community Development:										
Planning application reviews	543	451	373	341	289	332	259	393	361	369
Construction inspections	4,361	3,344	2,470	1,508	1,459	1,784	1,851	1,725	1,165	2,933
Building Permits	727	1032	1,757	1,175	766	852	625	768	817	862
Finance:										
Payroll checks issued	13,477	13,446	13,344	13,575	12,784	12,336	12,203	12,327	12,511	12,547
Utility accounts	15,541	14,546	15,980	14,833	14,684	14,618	14,685	15,023	15,024	14,985
A/P checks issued	9,054	8,697	8,859	7,879	7,634	7,484	7,460	7,313	7,517	7,644
Fire:										
Field incidents dispatched	3,889	3,552	3,896	4,590	4,734	4,092	4,123	4,282	4,282	4,997
Library:										
Items used/checked out	395,000	397,428	257,195	327,961	231,384	259,986	262,929	411,234	411,234	439,234
Parks & Community Services:										
Facility Drop In Totals	1,824	2,671	1,386	1,315	919	848	857	743	588	562
Police:										
Moving and Parking Citations	14,854	15,807	16,709	10,599	12,161	11,204	9,876	10,524	11,105	12,747
Service Calls Dispatch	81,281	81,303	61,643	57,651	62,047	62,126	61,239	65,288	69,668	67,632
URC Crime Rate (# crimes/1,000 population, calendar years)	52	43	42	32	32	27	25	39	40	43
Wastewater:										
Annual volume of septage treated (in million gallons)	7.11	7.17	7.45	7.12	6.65	6.98	7.70	7.81	3.39	3.49
Water:										
Water production (acre feet)	8,634	8,806	8,834	7,300	7,758	7,761	8,133	7,163	6,597	6,648
Solid Waste:										
Refuse handled (tons)	36,539	31,484	35,179	32,936	32,812	32,995	32,607	40,204	41,389	36,028
Recycled material (tons)	5,913	6,016	6,023	4,006	6,258	5,847	6,041	4,946	7,466	7,081

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	19	19	18	18	18	18	18	17	17	17
Patrol motorcycles	2	2	6	6	6	6	6	4	5	5
Library:										
Buildings	2	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	21	21	21	21	21	21	21	26	26	26
Acreage of parks	62.5	85.0	85.0	85.0	85.0	85.0	85.0	143.0	143.0	143.0
Community Centers	6	6	6	6	6	6	6	5	5	5
Public Works:										
Miles of streets	96	96	96	96	96	96	96	89	89	89
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	12.1	12.1	12.1	12.1	12.1	12.1
Water:										
Maximum pumping capacity*	18.7	18.7	18.7	18.7	18.7	18.7	18.7	19.1	19.1	19.1
Average consumption* *(gallons per day in millions)	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.1	5.9	5.9
Solid Waste:										
Collection trucks	20	20	20	20	19	16	16	16	19	19

Source: City of Watsonville departments

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