

COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Watsonville Plaza by Kristen Hays

City of Watsonville, California
Fiscal Year Ending
June 30, 2016

City of Watsonville, California

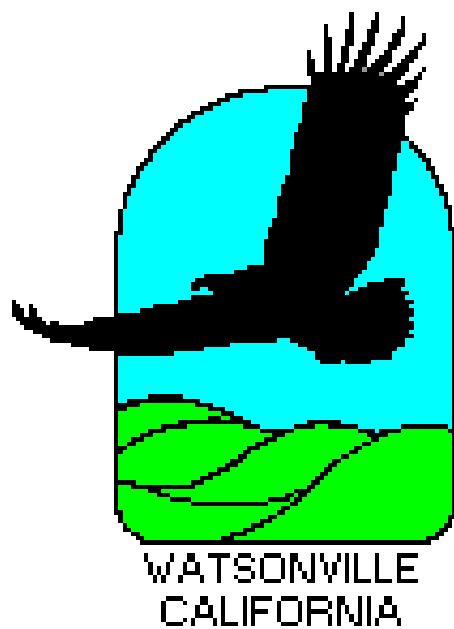
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Prepared by the Finance Department
Ezequiel Vega, Administrative Services Director



This Page Left Intentionally Blank



CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2016

TABLE OF CONTENTS

I. INTRODUCTORY SECTION:

Transmittal Letter	2
GFOA Certificate of Achievement	10
Officers and Officials.....	11
Organizational Structure.....	12

II. FINANCIAL SECTION:

Independent Auditors' Report	15
Management's Discussion and Analysis	17
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	30
Statement of Activities	33
Fund Financial Statements:	
Balance Sheet - Governmental Funds	34
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	35
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	37
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund	38
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Impact Fees Fund	39
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Low Income Housing Set Aside Fund	40
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Redevelopment and Housing Grants Fund	41
Statement of Net Position - Proprietary Funds.....	42
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	43
Statement of Cash Flows - Proprietary Funds	44

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2016

TABLE OF CONTENTS (Continued)

Statement of Fiduciary Net Position – Private Purpose Trust Fund	45
Statement of Changes in Net Position - Private Purpose Trust Fund	46
Notes to Financial Statements.....	47
Required Supplementary Information (Unaudited)	
Schedule of Changes in the Net Pension Liability and Related Ratios -	
Miscellaneous Pension Plan	96
Schedule of Contributions – Miscellaneous Pension Plan	97
Schedule of Proportionate Share of Net Pension Liability -	
Safety Pension Plan	98
Schedule of Contributions – Safety Pension Plan	99
Other Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	102
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	104
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual:	
Gas Tax and Narcotics Assets Seizure Funds	106
Business Development and Economic Development Funds	107
Library and Parks Development Funds	108
Retirement Tax and Parking Garage Funds	109
Measure G and Abandoned Vehicle Funds.....	110
Inclusionary Housing Fund	111
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual:	
Debt Service Fund	112
Capital Assets Used in the Operations of Government Funds:	
Comparative Schedule by Source	113
Schedule by Function and Activity	114
Schedule of Changes by Function and Activity.....	115

III. STATISTICAL SECTION (Unaudited):

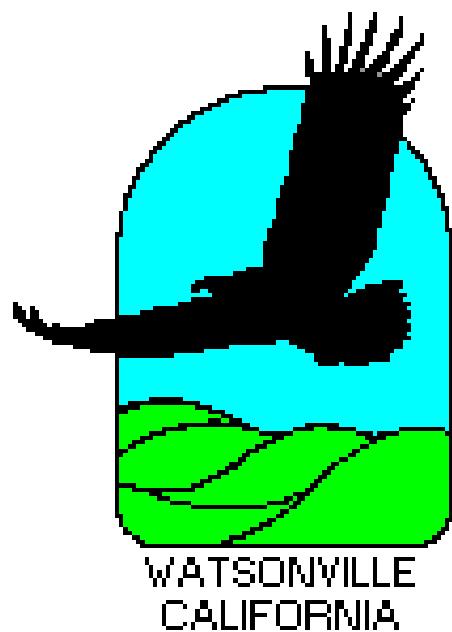
Net Position By Component - Last Ten Fiscal Years	117
Changes In Net Position - Last Ten Fiscal Years	118
Fund Balances of Governmental Funds - Last Ten Fiscal Years	120
Net Change In Fund Balances of Governmental Funds - Last Ten Fiscal Years	121
General Governmental Tax Revenues By Source - Last Ten Fiscal Years ..	122
Assessed Value and Estimated Actual Value of Taxable Property	123
Property Tax Rates - Direct and Overlapping - Last Ten Years	124

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2016

TABLE OF CONTENTS (Continued)

Principal Property Taxpayers - Current Year and Nine Years Ago	125
Property Tax Collection	126
Ratio of Outstanding Debt By Type - Last Ten Fiscal Years	127
Ratio of Net General Obligation Debt Outstanding - Last Ten Fiscal Years.	128
Legal Debt Margin Information - Last Ten Fiscal Years	129
Computation of Direct and Overlapping Bonded Debt	130
Demographic and Economic Statistics - Last Ten Fiscal Years	131
Principal Employers – Current Fiscal Year and Nine Years Ago	132
Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years	133
Operating Indicators by Function - Last Ten Fiscal Years	134
Capital Assets Statistics by Function - Last Ten Fiscal Years	135

This Page Left Intentionally Blank



INTRODUCTORY SECTION

CITY OF WATSONVILLE

"Opportunity through diversity; unity through cooperation"



December 31, 2016

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, 2016. 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, 2016.

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

Moss, Levy and Hartzheim L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Watsonville's financial statements for the fiscal year ending June 30, 2016. 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 unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2016, 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 52,891 people as of July 1, 2015.

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

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. In the case of the City, 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 106.

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

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

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

Although Watsonville is located in Santa Cruz County, it doesn't share the same characteristics as the rest of the County. Watsonville tends to have a median household income significantly lower than the County average due to the high number of farm workers and service workers who live in the City. This puts limits on the consumer tax base not found in other areas. As comparison, Watsonville median income in 2015 was \$46,000 while Santa Cruz County's median income was \$67,000. Accordingly, the poverty level is more prevalent in Watsonville than in the State and Santa Cruz County. According to figures from census.gov the percentage of persons living in poverty in Watsonville is 19.7%, while the same number for California and Santa Cruz County were 15.3% and 15.4% respectively.

Also, home values are often 58% of those throughout other parts of the County, which in turn helps establish Watsonville as a bedroom community for those working in farming or service industries throughout our region.

The Great Recession's impact of higher unemployment rates and declining home values hurt the Watsonville economy to a greater extent than the surrounding communities. Since its peak in 2006, the annual, median sale price for a single family home has dropped 32% (from a revised \$649,500 to \$457,000 in 2015). This rapid decline resulted from the extraordinary rise in Watsonville's foreclosure rates. According to data collected from RealtyTrac.com, the number of foreclosed properties at the beginning of fiscal year 2007/08 was 220 but reached a peak in August 2008 of 1,053 properties. More recent data collected from Zillow.com indicates foreclosure filings have decreased over the 2014 calendar year from a high of approximately 56.27 per 10,000 in 2009 to about 3 per 10,000 in November of 2015. Although this points to some signs of recovery, the property assessed values are only projected to increase by 2-3% in FY 2015-16 compared to assessed values in FY 2014-15. This increase is minimal and is not keeping pace with the regional increases.

Watsonville also has a higher unemployment rate in comparison to the rest of Santa Cruz County and the nation. According to the State Employment Development Department, the average estimated unemployment rate at the end of November 2015 was 7.9% for Watsonville and 6.1% for the County as a whole. Watsonville's rate has started to improve over the last three years.

In addition to the housing and unemployment trends, 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.

Total Property Tax collections (excluding Redevelopment Property Taxes) experienced abnormally high growth rates between 2001-02 and 2006-07 (12.3% annual average). The recession's impact was felt in 2008-09 when total receipts dropped 5.3% followed by a 14.0% drop in 2009-10. Collections for FY 2010-11 declined by 1.5% while FY 2012-13 shows a 10.8% decrease and FY 2013-14 shows an increase of 11%. FY 2014-15 shows another increase of approximately 3%. The increase in FY 2013-14 is due to the receipt one time revenues associated with the dissolution of the former RDA. Once these one-time revenues are subtracted, the net increase is close to 2%.

Given the earning power of local residents, total retail sales transactions in the City lag behind the total sales in the County. Watsonville accounted for \$2.2 billion in local retail sales compared to \$4.3 billion in the County. This affects Sales Tax revenue used to provide local service. This revenue source had been a relatively stable revenue source prior to the recession. Total sales tax collections (modified accrual) grew annually at a 6.6% average rate from 2002-03 through 2006-07. This was followed by three years of declines that averaged <7.8%> annually through 2009-10 (after adjusting out a 2007 ¼-cent sales tax increase from a local ballot measure revenue swap). However, 2011-12 collections reversed and grew 1.1% from the prior year and in FY 2013-14, sales tax revenue grew nearly 12% but it is projected to grow by 1 to 2% for the next couple of years.

Community development fees appear to have reached the bottom for this decade following annual declines of 30%, 16.1%, 41.5% and 16.3% in each of the fiscal years from 2004-05 through 2007-08. For 2008-09, total fees increased slightly by 4.5% to just over \$800,000 in total but experienced another big decline in 2009-10 of 24.9% to just over \$600,000. Fiscal year 2010-11 fees rebounded to nearly \$740,000 on the strength of code enforcement citations but declined to \$712,000 in FY 2012-13. In FY 2013-14 these revenues increased by about 16%, and in FY 2014-15 these same revenues experienced a 21% increase. However, as construction begins to stabilize these fees grew about 1% in FY 2015-16 and are anticipated to remain at similar levels in FY 2016-17.

Long-term financial planning

Although the City's long-term revenue projections may stabilize, there is still considerable risk for declines as the national economy continues its recover from the Great Recession. Property taxes continue to increase nationwide, but Watsonville

has seen smaller percentages increases due to the composition of the local economy. While small increases in sales have sustained over the last few years, and property taxes are projected to also grow by a small percentage; the high unemployment rates will continue to suppress revenue growth to lower than those of neighboring communities.

Property tax revenue trends may fluctuate in the upcoming years. The overall inventory of sales has diminished significantly, including the inventory of foreclosures. There are multiple offers being made for properties bidding the prices up. Nevertheless, this increase in pricing is not significant, as the assessed property values are projected to increase by only 2-3% in the upcoming fiscal year. According to Zillow.com data, average home prices in Watsonville are at \$484,500 in 2016, as compared to a lower \$457,000 a year ago. If home values continue to increase, it will result in higher assessed valuation and higher property tax revenues for the City. If the balance is positive, the projected decrease in assessed valuation may be offset by increased housing prices and its related supplemental tax.

Sales tax collections increased in FY 2015-16 by an estimated 4% in comparison to the same period in FY 2013-14. Although there remains vacant retail space within the City, it is anticipated that in FY 2016-17 there will be small increases in sales tax of almost 3% over the previous year. However, collections could drop as surrounding communities compete for sales tax consumers and if the City's unemployment rate worsens. In addition, due to the global changes in how consumers buy more items online, the sales tax base could deteriorate further.

Changes in Vehicle license fees indicate consumer's willingness for larger capital purchases. According to the California New Car Dealer Association, new car sales have increased in six consecutive years since 2010. However, this trend is slowing down and shows some elements of contraction. The first two quarters for 2016 showed smaller gains in new car sales while the third quarter showed a decrease from the same quarter the previous year. If these trends continue, contraction in new car sales could have a significant impact on the upcoming fiscal year and it could lead to decreases in vehicle license fees in the coming years along with lower sales taxes.

Utility user taxes are driven by consumer utility prices and demand. As demand lessened during the recession, receipts declined as well. Increases in utility rates from higher energy prices and planned capital improvements to pipeline infrastructure may lead to increased tax collection in the coming years. This source of funding was relatively stable in FY 2014-15 and it is projected to remain at similar levels in FY 2015-16 but it is projected to have a slight increase in FY 2016-17 as the City voters recently adopted a new utility user tax ordinance which expanded the types of technologies which could be taxed.

The FY 2015-16 and FY 2016-17 budgets were approved as balanced by the City Council while ending the furloughs which had affected the City over the past several years. Nevertheless, austerity and wise spending patterns should continue to remain a part of the City's operations.

As reported in the previous years' transmittal letters, the dissolution of the former Redevelopment Agency had many negative impacts in the City's financial condition. One of these impacts resulted in a reduction of fund balance in the General of about \$3.6 million. However, in FY 2014-15 the City was successful in earning a victory in courts with regards to \$4.4 million in loans to the former redevelopment agency. This court decision helped the City's General Fund bottom line, so the fund balance has increased to \$7.8 million from the previous \$4.6 million.

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.

Future growth plans include the development of a formally annexed area known as the Manabe-Ow area. The City is in the process of evaluating ways to support the development of the major infrastructure improvement that will be required. Ultimately, this land will be used predominantly for light industrial purposes and is estimated to create an additional 2,000 jobs over the next 20 years. The project is also expected to spur reinvestment in the surrounding industrial areas, further aiding in revenue growth and job creation for the City.

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, 2015. This was the sixteenth 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 Assistant Finance Officer, 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 fifteen 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, 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,

Ezequiel Vega
Ezequiel Vega
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, 2015

A handwritten signature in black ink, appearing to read 'Jeffrey P. Evans'.

Executive Director/CEO

City of Watsonville, California

Officers and Officials

For the Fiscal Year Ending June 30, 2016

City Council:

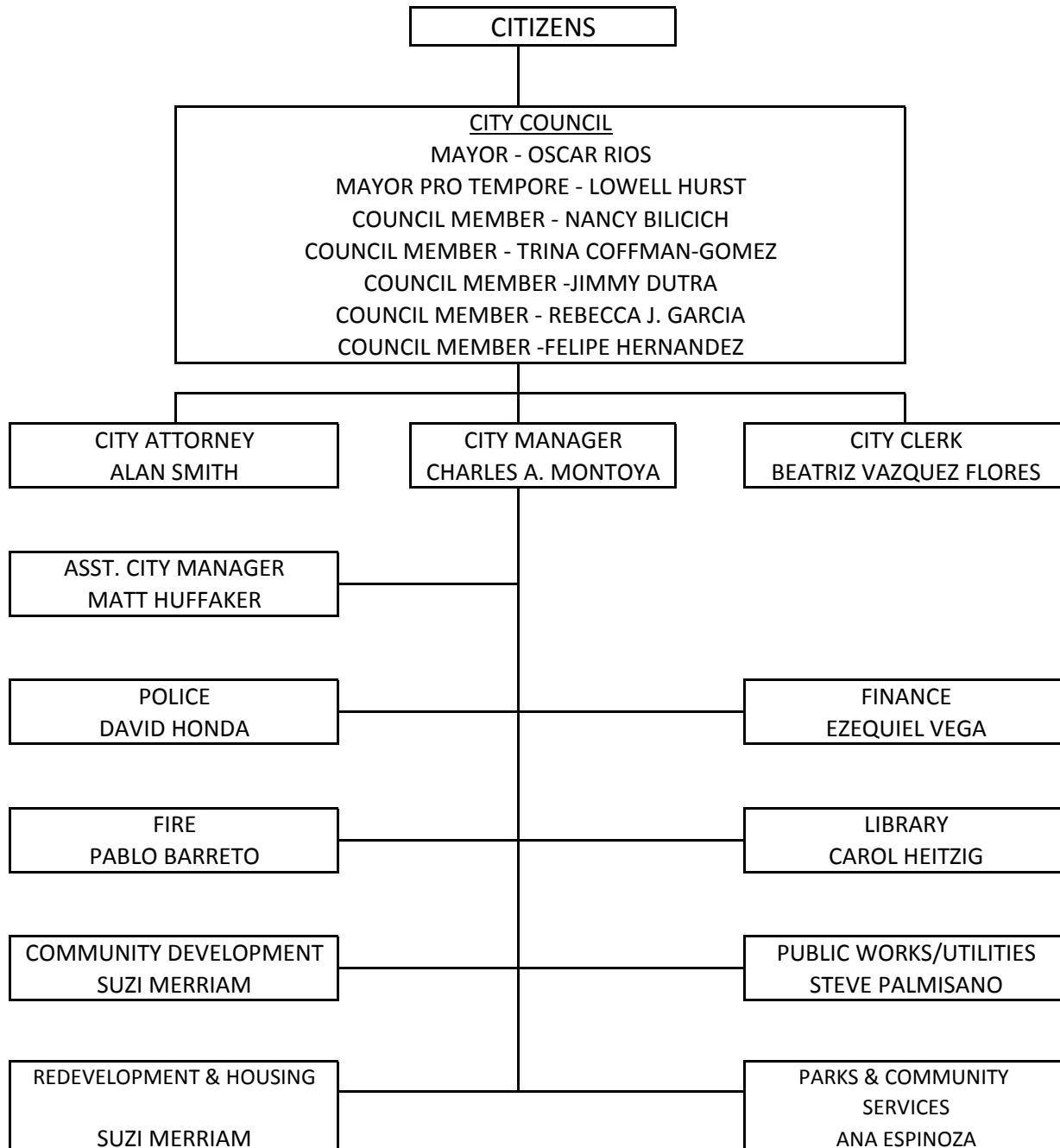
Mayor – Oscar Rios
Mayor Pro Tempore – Lowell Hurst
Council Member – Nancy Bilicich
Council Member – Trina Coffman-Gomez
Council Member – Jimmy Dutra
Council Member – Rebecca J. Garcia
Council Member – Felipe Hernandez

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 – Ezequiel Vega
Library Director – Carol Heitzig
Interim Community Development Director – Suzi Merriam
Parks and Community Development Services Director – Ana Espinoza

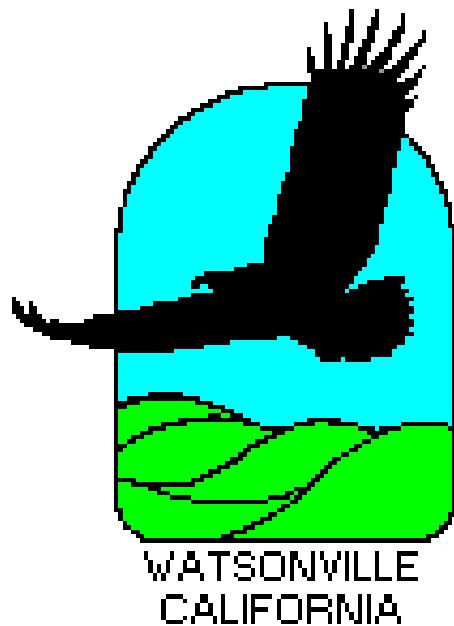
WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE FISCAL YEAR 2015 - 2016



Financial Section

This Page Left Intentionally Blank





INDEPENDENT AUDITORS' REPORT

City Council of the City of Watsonville
Watsonville, California

Report on the 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 (the City), as of and for the fiscal year ended June 30, 2016, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 entity'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 entity'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.

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 information of the City of Watsonville, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Impact Fees Fund, Housing Fund, and the Redevelopment and Housing Grants Fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principles

As discussed in note IV.A to the basic financial statements effective July 1, 2015, the City of Watsonville adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 27, Schedule of Changes in the Net Pension Liability and Related Ratios on page 96, Schedule of Proportionate Share of Net Pension Liability on page 98, Schedule of Contributions on pages 97 and 99 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 of Watsonville's basic financial statements. The introductory section, statistical section, combining and individual nonmajor fund financial statements and schedules, governmental capital asset schedules, and the major debt service fund budgetary comparison schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, the governmental capital asset schedules, and major debt service fund budgetary comparison schedule are the responsibility of management and were derived from and relate 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 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 combining and individual nonmajor fund financial statements, the governmental capital asset schedules, and the major debt service fund budgetary comparison schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section has 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 30, 2017, on our consideration of the City of Watsonville'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.

Moss, Levy & Hartgeim LLP

Santa Maria, California
January 30, 2017

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, 2016. 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 \$217,618. There was a prior period adjustment of (\$4,112), with most of the adjustments to capital assets with conversion of new software and corrections of data from the old asset system.
- The City's total restated net position increased by \$7,379. Governmental activities net position increased by \$3,683, which most of this increase from increases in property taxes and sale taxes. Business type activities net position increased by \$3,696. Most of this increase was from Sewer, Solid Waste and Airport ending with positive operating income.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,164 an increase of \$7,873 in comparison with the prior fiscal year's restated balances. The non-spendable portion of the fund balance was \$3,365, the restricted portion was \$18,341 and the unassigned amount was \$3,458 a large portion of the unassigned fund balance was created by increases in taxes received by the general fund during fiscal year 2015-16.

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 \$217,618 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net position \$205,461 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 \$16,754 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 (\$4,597) is a negative reduction of the net position due to the GASB 68 pension liability reporting.

City of Watsonville's Net Position
June 30, 2016
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
Current and other assets	64,169	57,935	24,810	57,969	88,979	115,904
Capital assets	115,059	118,824	95,679	100,915	210,738	219,739
Total Assets	179,228	176,759	120,489	158,884	299,717	335,643
Deferred inflows of resources	6,758	3,478	3,123	857	9,881	4,335
Total Deferred Resources	6,758	3,478	3,123	857	9,881	4,335
Long-term liabilities outstanding	49,880	45,603	20,363	57,902	70,243	103,505
Other Liabilities	8,603	5,904	2,428	2,815	11,031	8,719
Total Liabilities	58,483	51,507	22,791	60,717	81,274	112,224
Deferred outflows of resources	7,127	10,282	3,579	3,121	10,706	13,403
Total Deferred Resources	7,127	10,282	3,579	3,121	10,706	13,403
Net Position:						
Net investment in capital assets	110,806	114,148	94,655	98,484	205,461	212,632
Restricted	16,754	44,188	-	-	16,754	44,188
Unrestricted	(7,184)	(39,888)	2,587	(2,581)	(4,597)	(42,469)
Total Net Position	120,376	118,448	97,242	95,903	217,618	214,351

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. Again, with the implementation of GASB 68 and GASB 71, the unrestricted net position is negative for the City as a whole and for governmental activity.

City of Watsonville
Summary of Changes in Net Position
For the Fiscal Year Ending June 30, 2016
(in thousands)

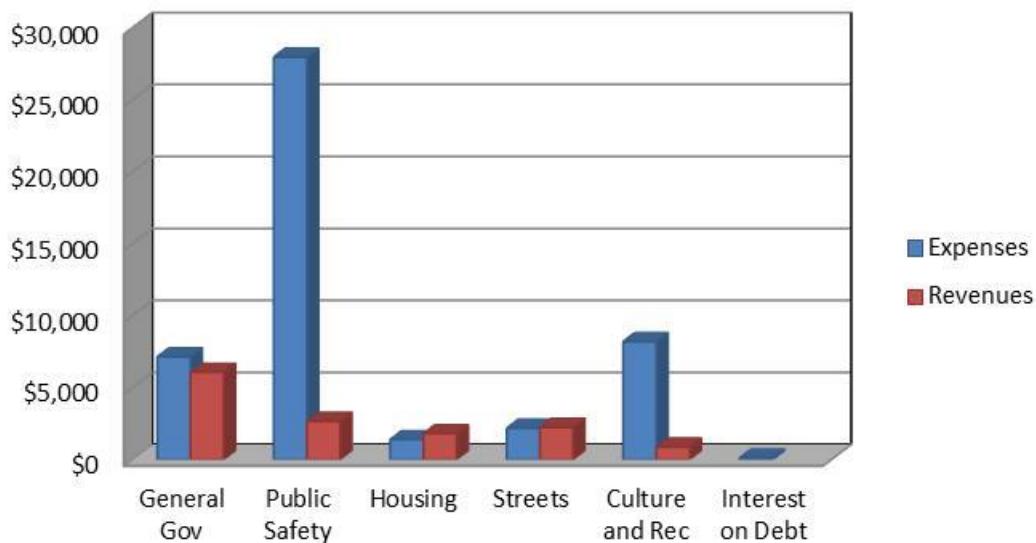
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	10,068	10,190	39,991	34,548	50,059	44,738
Operating grants and contributions	3,590	2,393	759	900	4,349	3,293
Capital grants and contributions	-	-	659	590	659	590
General Revenues						
Property taxes	12,846	11,868	-	-	12,846	11,868
Other taxes	21,788	19,125	-	-	21,788	19,125
Others	3,218	3,390	201	270	3,419	3,660
Internal balances	232	226	(232)	(226)	-	-
Total Revenues and Transfers	51,742	47,192	41,378	36,082	93,120	83,274
Expenses:						
General government	7,151	5,494	-	-	7,151	5,494
Public safety	27,751	25,716	-	-	27,751	25,716
Housing	1,389	1,298	-	-	1,389	1,298
Streets	3,043	4,697	-	-	3,043	4,697
Culture and recreation	8,613	7,916	-	-	8,613	7,916
Interest on debt	112	132	-	-	112	132
Water	-	-	15,537	11,583	15,537	11,583
Sewer	-	-	10,731	10,741	10,731	10,741
Solid waste	-	-	9,181	10,136	9,181	10,136
Airport	-	-	2,225	2,580	2,225	2,580
Fiber optic	-	-	8	-	8	-
Total Expenses	48,059	45,253	37,682	35,040	85,741	80,293
Change in net position	3,683	1,939	3,696	1,042	7,379	2,981
Net position - beginning	118,448	158,613	95,903	110,143	214,351	268,756
Prior year adjustments	(1,755)	(42,104)	(2,357)	(15,282)	(4,112)	(57,386)
Net position - beginning restated	116,693	116,509	93,546	94,861	210,239	211,370
Net position ending	120,376	118,448	97,242	95,903	217,618	214,351

Governmental Activities. Governmental activities increased the City of Watsonville's Net Position by a \$3,683. Key elements of this increase are as follows:

- Governmental revenues and expenses were greater than last year with increase in general government expenses of \$1,657 and an increase in public safety of \$2,035. There was an increase in other taxes with a full year of Measure G sales tax revenues for public safety and general fund receiving increase in property and sales tax revenues.
- Governmental expenses also decreased by (\$1,654) under streets. The majority of the decrease was from the gas tax fund expenses were \$2,580 lower than budgeted. The City tries to save gas tax funds to every other year so that major maintenance projects can be done during the following year.

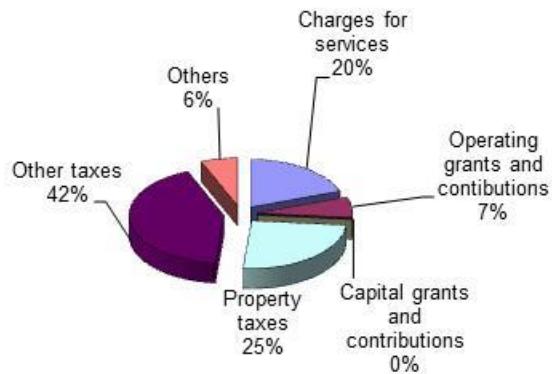
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities



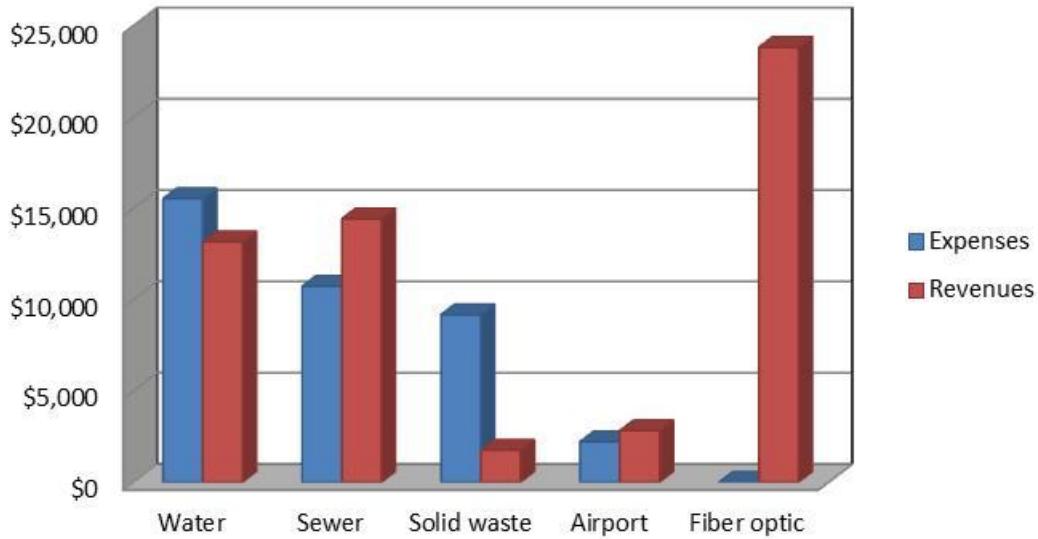
Expenses for debt decreased during the fiscal year. This decrease was from interest on debt decreasing with the elimination of some of the special assessment debt.

Expenses for housing and culture and recreation also increased. The increase of housing costs was due increased housing grant activities and the culture and recreation costs increased due library fund activates increased.

Business-type activities. Business-type activities increased the City of Watsonville's restated net position by \$3,696. Key elements of this increase are as follows:

Expenses and Program Revenues

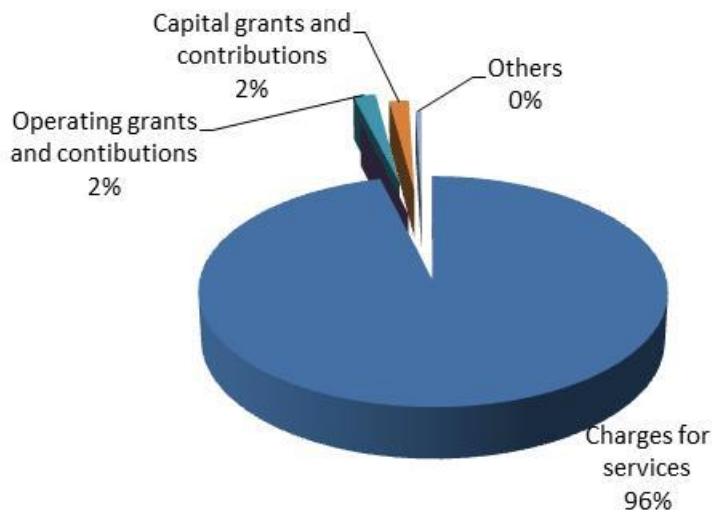
Business-type Activities



- Capital grants and contributions increased by \$69. The Sewer's reimbursement from local governmental agencies was the reason for the increase in operating grants.
- Water Fund had an increase in charges for services with rate increases approved by the City Council for the fiscal year 2015-16.
- Sewer, Solid Waste and Airport Funds all had decreases in costs of sales and services as of the fiscal year end. Sewer Fund had a decrease of \$9, Solid Waste Fund had a decrease of \$951 and Airport Fund had a decrease of \$355. A large portion of the savings for the Solid Waste Fund was in salaries and also savings in operation costs.
- Water Fund charges for services increased by \$3,949, due mainly to the start of implementation procedures for new Federal and State regulations.

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 \$25,164, an increase of \$7,873 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 \$3,817. This balance is for projects that have been budgeted or planned and 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 22 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 \$3,756 during the current fiscal year due to the following key factors:

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

The Impact Fees Fund had a fund balance of 3,817, an increase of \$904 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 \$3,572, an increase of \$1,232 over the prior year's balance. This increase is due to loan repayments during the fiscal year were greater than expenditures.

The Redevelopment and Housing Grants Fund has a fund balance of \$90, an increase of \$380 from the restated 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 \$125, an increase of \$53 during the fiscal year. This increase is the result of some prepayments on special assessment debt that will be used in the future to retire 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 2016	FY 2015	Change	% Change
Water	47,569	49,904	(2,335)	-4.68%
Sewer	40,874	37,235	3,639	9.77%
Solid Waste	2,387	804	1,583	196.89%
Airport	6,398	5,603	795	14.19%
Fiber Optic	16	-	16	100.0%

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 \$620,000. \$160,000 was for costs associated with the new City wide financial system implementation, and \$450,000 was for police and fire projected over costs in operations.

Tax revenues were \$1,731 over budget. This increase in tax revenue was due to various property taxes being over budgeted amounts. Licenses, permits and fees and intergovernmental revenues were both under budget. General government and Streets expenditures were lower than expected as general government has still held costs down from the 6 years of furloughs that just ended last year and streets have several maintenance projects were postponed to next fiscal year.

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, 2016 was \$210,738 (net of depreciation). This represents a (\$9,000) decrease from the prior year or (4.10%).

Total City of Watsonville Capital Assets FY 2015-16

Capital Asset	FY 2016	FY 2015	Change	% Change
Land	32,174	33,303	(1,129)	-3.39%
Building and Improvements	146,332	146,804	(472)	-0.32%
Machinery & Equipment	6,125	14,440	(8,315)	-57.58%
Infrastructure	22,076	21,449	627	2.92%
Construction in progress	4,031	3,742	289	7.72%
Totals	210,738	219,738	(9,000)	-4.10%

Governmental Type Activities contributed to this decrease by a decrease of (3.17%)

Governmental Activities Capital Assets FY 2015-16

Capital Asset	FY 2016	FY 2015	Change	% Change
Land	13,971	14,682	(711)	-4.84%
Building and Improvements	90,040	89,419	621	0.69%
Machinery & Equipment	3,439	5,368	(1,929)	-35.94%
Infrastructure	5,692	8,980	(3,288)	-36.61%
Construction in progress	1,918	374	1,544	412.83%
Totals	115,060	118,823	(3,763)	-3.17%

While Business Type Activities contributed to this decrease by a decrease of (5.19%)

Business Type Activities Capital Assets FY 2015-16

Capital Asset	FY 2016	FY 2015	Change	% Change
Land	18,204	18,621	(417)	-2.24%
Building and Improvements	56,292	57,385	(1,093)	-1.90%
Machinery & Equipment	2,686	9,072	(6,386)	-70.39%
Infrastructure	16,384	12,469	3,915	31.40%
Construction in progress	2,113	3,368	(1,255)	-37.26%
Totals	95,679	100,915	(5,236)	-5.19%

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 \$70,243. Of this amount, \$677 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds), and \$214 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 \$1,806, debt payable of \$2,425, postretirement liability of \$3,316, compensated absences of \$2,056, net pension of \$40,040, and \$22 for loans. Business type activities have \$347 in notes payable, postretirement liability of \$1,273, compensated absences of \$933, net pension of \$13,703 and landfill closure/postclosure liability of \$3,431. During the fiscal year the Water fund's debt held for Pajaro Valley Water Management Agency in Revenue bonds of \$27,345 were refunded by the Agency so the Water was able to remove the liability and the corresponding receivable.

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 \$135,816 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

- New COPS grant that will fund three Officers for the next three fiscal years.
- Potential gain of sales tax revenues from the improved economy.
- New half percent sales tax approved for seven years to fund fire and police positions and equipment.
- City Council approved a budget that eliminated the 10% furloughs after six and a half years.

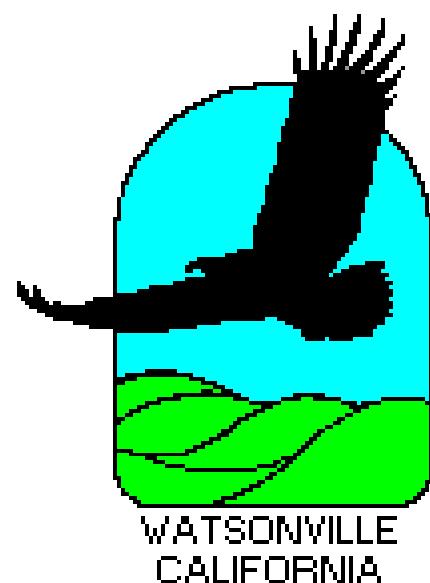
With all the above factors considered, the City of Watsonville future appears to be brighter than past fiscal years. Overall economic activity has improved over the last fiscal year. Housing prices have increased resulting in improved property taxes, car sales have shown consistent growth and the unemployment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

All of these factors were taken into consideration during the preparation of the City of Watsonville's annual budget for the fiscal year 2016-17.

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.

This Page Left Intentionally Blank



Basic Financial Statements

CITY OF WATSONVILLE, CALIFORNIA

STATEMENT OF NET POSITION

JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
	\$	\$	\$
ASSETS			
Cash and investments	25,217,863	16,451,819	41,669,682
Cash and investments with fiscal agent	-	40,518	40,518
Restricted cash	-	1,594,637	1,594,637
Receivables:			
Interest	1,679,760	2,512	1,682,272
Taxes	4,723,902	-	4,723,902
Assessments	149,000	-	149,000
Accounts	1,654,668	3,179,209	4,833,877
Intergovernmental	1,200,878	137,750	1,338,628
Internal balances	(1,709,203)	1,709,203	-
Loans receivable	29,977,082	1,231,141	31,208,223
Inventories	37,734	463,569	501,303
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	90,039,882	56,292,120	146,332,002
Machinery	3,439,004	2,686,205	6,125,209
Infrastructure	5,691,750	16,384,394	22,076,144
Construction in progress	1,918,004	2,112,597	4,030,601
Total Assets	<u>179,228,088</u>	<u>120,489,277</u>	<u>299,717,365</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflow of resources - Pensions	6,757,868	3,122,823	9,880,691
Total deferred inflow of resources	<u>6,757,868</u>	<u>3,122,823</u>	<u>9,880,691</u>

See accompanying notes to financial statements

Continued

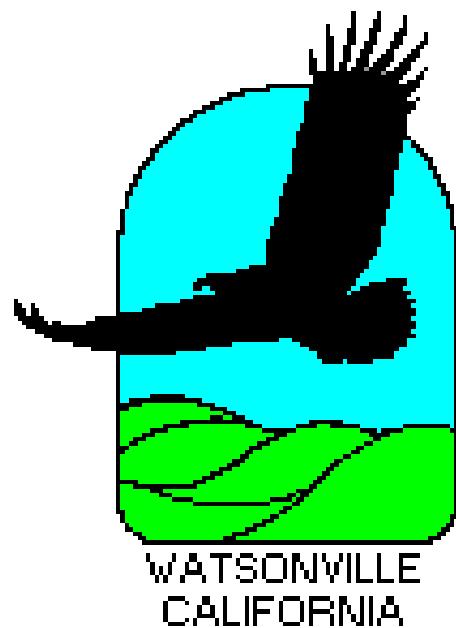
CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
	\$	\$	
LIABILITIES			
Accounts payable	1,396,095	1,617,971	3,014,066
Accrued personnel costs	1,275,411	567,062	1,842,473
Insurance claims payable	4,887,594	-	4,887,594
Interest payable	47,264	3,380	50,644
Retentions payable	44,028	-	44,028
Unearned revenue	-	232,870	232,870
Deposits	952,835	6,175	959,010
Noncurrent liabilities			
Due within one year	623,589	516,644	1,140,233
Due in more than one year			
(Net of capitalized discounts)	<u>49,256,200</u>	<u>19,846,651</u>	<u>69,102,851</u>
Total Liabilities	<u>58,483,016</u>	<u>22,790,753</u>	<u>81,273,769</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources - Pensions	7,127,138	3,578,891	10,706,029
Total deferred inflow of resources	<u>7,127,138</u>	<u>3,578,891</u>	<u>10,706,029</u>
NET POSITION			
Net investment in capital assets	110,805,635	94,655,236	205,460,871
Restricted for:			
Debt service	77,778	-	77,778
Impact fee	3,817,246	-	3,817,246
Housing	3,572,115	-	3,572,115
Redevelopment and housing grants	90,173	-	90,173
Grants, contributions & fees for specific purpose	9,197,142	-	9,197,142
Unrestricted	<u>(7,184,287)</u>	<u>2,587,220</u>	<u>(4,597,067)</u>
Total Net Position	<u>120,375,802</u>	<u>97,242,456</u>	<u>217,618,258</u>

See accompanying notes to financial statements

Concluded

This Page Left Intentionally Blank



CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs Primary Government:	Program Revenues				Primary Government		
	Expenses \$	Charges for Services \$	Operating Grants and Contributions \$	Capital Grants and Contributions \$	Governmental Activities \$	Business-type Activities \$	Total \$
Governmental activities:							
General government	7,151,536	5,523,669	543,233	-	(1,084,634)	-	(1,084,634)
Public safety	27,751,475	1,853,364	808,949	-	(25,089,162)	-	(25,089,162)
Housing	1,388,605	-	1,808,351	-	419,746	-	419,746
Streets	3,043,408	1,857,428	387,357	-	(798,623)	-	(798,623)
Culture and recreation	8,613,033	833,431	42,133	-	(7,737,469)	-	(7,737,469)
Interest on long term debt	111,660	-	-	-	(111,660)	-	(111,660)
Total government activities	48,059,717	10,067,892	3,590,023	-	(34,401,802)	-	(34,401,802)
Business-type activities							
Water	15,536,765	12,755,561	-	418,346	-	(2,362,858)	(2,362,858)
Sewer	10,731,446	14,307,054	69,525	50,822	-	3,695,955	3,695,955
Solid Waste	9,180,747	10,746,436	20,636	-	-	1,586,325	1,586,325
Airport	2,225,649	2,158,606	668,297	189,842	-	791,096	791,096
Fiber Optic	7,862	23,817	-	-	-	15,955	15,955
Total business-type activities	37,682,469	39,991,474	758,458	659,010	-	3,726,473	3,726,473
Total primary government	85,742,186	50,059,366	4,348,481	659,010	(34,401,802)	3,726,473	(30,675,329)
General revenues:							
Property taxes				12,845,972	-	12,845,972	
Sales taxes				16,692,551	-	16,692,551	
Utility users taxes				3,183,242	-	3,183,242	
Franchise taxes				455,425	-	455,425	
Other taxes				1,457,222	-	1,457,222	
Intergovernmental revenues not restricted to specific program				1,119,956	-	1,119,956	
Unrestricted investment earnings				2,098,367	201,352	2,299,719	
Transfers				231,812	(231,812)	-	
Total general revenues and transfers				38,084,547	(30,460)	38,054,087	
Change in net position				3,682,745	3,696,013	7,378,758	
Net position - beginning				118,447,825	95,903,314	214,351,139	
Prior period adjustments				(1,754,768)	(2,356,871)	(4,111,639)	
Net position - beginning, restated				116,693,057	93,546,443	210,239,500	
Net position - ending				120,375,802	97,242,456	217,618,258	

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2016

	SPECIAL REVENUE FUNDS						TOTAL GOVERNMENTAL FUNDS \$
	GENERAL \$	IMPACT FEES \$	HOUSING \$	REDEVELOPMENT AND HOUSING GRANTS \$	DEBT SERVICE \$	OTHER GOVERNMENTAL FUNDS \$	
ASSETS:							
Cash and investments	8,419,213	3,336,607	2,401,097	1,291,266	120,470	8,844,866	24,413,519
Receivables:							
Interest	108,076	-	710,472	758,680	-	102,532	1,679,760
Taxes	2,948,558	-	-	-	-	1,775,344	4,723,902
Deferred assessments	-	-	-	-	149,000	-	149,000
Accounts	1,304,596	-	-	-	4,573	67,089	1,376,258
Intergovernmental	543,803	117,270	-	169,238	-	370,567	1,200,878
Due from other funds	1,425,362	-	-	-	-	-	1,425,362
Advances receivable	3,326,862	483,133	-	-	-	747,819	4,557,814
Loans receivable	4,432,980	-	11,057,733	13,444,605	-	1,041,764	29,977,082
Inventories	37,734	-	-	-	-	-	37,734
Land held for resale	-	-	1,177,012	-	-	-	1,177,012
Total Assets	<u>22,547,184</u>	<u>3,937,010</u>	<u>15,346,314</u>	<u>15,663,789</u>	<u>274,043</u>	<u>12,949,981</u>	<u>70,718,321</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts payable	814,030	1,775	218	14,549	-	468,788	1,299,360
Accrued personnel costs	1,198,565	719	5,305	9,384	-	61,438	1,275,411
Due to other funds	-	-	-	147,904	-	827,458	975,362
Retentions payable	-	-	-	11,213	-	32,815	44,028
Advances payable	6,717,017	-	-	-	-	-	6,717,017
Unearned revenue	870,680	-	-	964,043	-	-	1,834,723
Deposits	885,860	-	471	-	-	66,505	952,836
Total Liabilities	<u>10,486,152</u>	<u>2,494</u>	<u>5,994</u>	<u>1,147,093</u>	<u>-</u>	<u>1,457,004</u>	<u>13,098,737</u>
Deferred Inflows of Resources							
Unavailable revenue	4,468,398	117,270	11,768,205	14,426,523	149,000	1,525,883	32,455,279
Total Deferred Inflows of Resources	<u>4,468,398</u>	<u>117,270</u>	<u>11,768,205</u>	<u>14,426,523</u>	<u>149,000</u>	<u>1,525,883</u>	<u>32,455,279</u>
Fund Balances:							
Nonspendable:							
Inventories	37,734	-	-	-	-	-	37,734
Advance receivable	3,326,862	-	-	-	-	-	3,326,862
Restricted for:							
Debt service	-	-	-	-	125,043	-	125,043
Streets - Impact fees	-	3,817,246	-	-	-	-	3,817,246
Housing	-	-	3,572,115	-	-	-	3,572,115
Redevelopment and Housing	-	-	-	90,173	-	-	90,173
Streets - Gas tax	-	-	-	-	-	2,126,624	2,126,624
Public safety - Narcotics assets seizure	-	-	-	-	-	89,306	89,306
Housing - Business development	-	-	-	-	-	148,793	148,793
Housing - Rental rehabilitation	-	-	-	-	-	317,908	317,908
Cultural and recreation - Library	-	-	-	-	-	1,297,604	1,297,604
Cultural and recreation - Parks development	-	-	-	-	-	1,406,791	1,406,791
General government - Retirement tax	-	-	-	-	-	848,417	848,417
Public safety - Measure G	-	-	-	-	-	2,522,523	2,522,523
Housing - Inclusionary housing	-	-	-	-	-	1,979,080	1,979,080
Unassigned	4,228,038	-	-	-	-	(769,952)	3,458,086
Total Fund Balances	<u>7,592,634</u>	<u>3,817,246</u>	<u>3,572,115</u>	<u>90,173</u>	<u>125,043</u>	<u>9,967,094</u>	<u>25,164,305</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>22,547,184</u>	<u>3,937,010</u>	<u>15,346,314</u>	<u>15,663,789</u>	<u>274,043</u>	<u>12,949,981</u>	<u>70,718,321</u>

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, 2016

Amounts Reported For Governmental Activities To The Statement Of Net Position Are Different Because:	\$
Fund Balances Of Governmental Funds. (Page 34)	25,164,305
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	191,856,026
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(76,796,634)
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.	(3,841,575)
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.	34,290,003
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(47,264)
Long-term Liability Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(49,879,789)
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	6,757,868
Deferred Inflows Of Resources Relating To Pensions	(7,127,138)
Total Net Position - Governmental Activities	<u><u>120,375,802</u></u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS						TOTAL GOVERNMENTAL FUNDS	
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING GRANTS		DEBT SERVICE GENERAL	OTHER GOVERNMENTAL FUNDS	
				\$	\$			
REVENUES:								
Taxes	24,347,912	-	-	-	-	-	11,406,456	35,754,368
Licenses, permits, and fees	3,923,057	1,137,550	-	-	-	-	733,965	5,794,572
Intergovernmental	1,348,332	-	-	1,544,541	-	81,135	361,727	3,335,735
Charges for services	2,945,028	-	-	-	-	-	-	2,945,028
Fines	690,068	-	-	-	-	-	-	690,068
Interest	2,077,382	30,582	10,543	6,068	-	-	43,425	2,168,000
Special assessment	-	-	-	-	77,489	-	-	77,489
Miscellaneous	1,022,140	-	1,551,675	-	-	-	235,855	2,809,670
Total revenues	36,353,919	1,168,132	1,562,218	1,550,609	158,624	12,781,428	-	53,574,930
EXPENDITURES:								
Current:								
General government	6,589,983	-	-	912	-	-	433,541	7,024,436
Public safety	22,549,848	-	-	-	-	-	2,623,675	25,173,523
Housing	-	-	330,092	921,580	-	-	136,933	1,388,605
Streets	2,264,193	239,836	-	-	-	-	1,150,924	3,654,953
Culture and recreation	3,978,450	-	-	-	-	-	4,066,182	8,044,632
Debt service:								
Principal	-	-	-	-	497,982	-	-	497,982
Interest and fiscal charges	-	-	-	-	113,831	-	-	113,831
Total expenditures	35,382,474	239,836	330,092	922,492	611,813	8,411,255	-	45,897,962
Excess (deficiency) of revenues over (under) expenditures	971,445	928,296	1,232,126	628,117	(453,189)	4,370,173	-	7,676,968
OTHER FINANCING SOURCES (USES)								
Transfers in	3,019,033	-	-	-	506,474	166,620	-	3,692,127
Transfers out	(234,101)	(24,534)	-	(248,439)	-	(2,989,199)	-	(3,496,273)
Total other financing sources (uses)	2,784,932	(24,534)	-	(248,439)	506,474	(2,822,579)	-	195,854
Net change in fund balances	3,756,377	903,762	1,232,126	379,678	53,285	1,547,594	-	7,872,822
Fund balances, July 1	4,630,140	3,014,147	2,340,986	(237,372)	71,758	8,378,995	-	18,198,654
Prior period adjustments	(793,883)	(100,663)	(997)	(52,133)	-	40,505	-	(907,171)
Fund balances, July 1, as restated	3,836,257	2,913,484	2,339,989	(289,505)	71,758	8,419,500	-	17,291,483
Fund balances, June 30	7,592,634	3,817,246	3,572,115	90,173	125,043	9,967,094	-	25,164,305

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, 2016

	\$
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Net Change In Fund Balance - Total Governmental Funds (Page 36)	7,872,822
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.	(2,987,669)
Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds.	(2,064,280)
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	497,982
This Amount Of Post Retirement Costs	18,031
This Amount Of Compensated Absences	76,289
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	(1,298,553)
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	1,565,953
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.	2,170
Change In Net Position Of Governmental Funds. (Page 33)	<u>3,682,745</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, 2016

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	
REVENUES:				
Taxes	22,617,000	22,617,000	24,347,912	1,730,912
Licenses, permits, and fees	4,454,812	4,454,812	3,923,057	(531,755)
Intergovernmental	1,885,434	1,885,434	1,348,332	(537,102)
Charges for services	2,949,152	2,949,152	2,945,028	(4,124)
Fines	831,000	831,000	690,068	(140,932)
Interest	1,972,645	1,972,645	2,077,382	104,737
Miscellaneous	373,587	373,587	1,022,140	648,553
Total revenues	35,083,630	35,083,630	36,353,919	1,270,289
EXPENDITURES:				
Current:				
General government	7,959,589	7,799,589	6,589,983	1,209,606
Public safety	22,143,366	21,683,366	22,549,848	(866,482)
Streets	4,072,368	4,231,240	2,264,193	1,967,047
Culture and recreation	4,080,220	4,080,220	3,978,450	101,770
Total expenditures	38,255,543	37,794,415	35,382,474	2,411,941
Excess (deficiency) of revenues over (under) expenditures	(3,171,913)	(2,710,785)	971,445	3,682,230
OTHER FINANCING SOURCES (USES)				
Transfers in	3,377,201	3,377,201	3,019,033	(358,168)
Transfers out	(380,716)	(380,716)	(234,101)	146,615
Total other financing sources (uses)	2,996,485	2,996,485	2,784,932	(211,553)
Net change in fund balance	(175,428)	285,700	3,756,377	3,470,677
Fund balance, July 1	4,630,140	4,630,140	4,630,140	-
Prior period adjustments	-	-	(793,883)	(793,883)
Fund balance July 1, as restated	4,630,140	4,630,140	3,836,257	(793,883)
Fund balance, June 30	4,454,712	4,915,840	7,592,634	2,676,794

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, 2016

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	
REVENUES:				
Licenses, permits, and fees	358,000	358,000	1,137,550	779,550
Interest	33,500	33,500	30,582	(2,918)
Total revenues	391,500	391,500	1,168,132	776,632
EXPENDITURES:				
Current:				
Streets	1,370,450	1,370,450	239,836	1,130,614
Total expenditures	1,370,450	1,370,450	239,836	1,130,614
Excess (deficiency) of revenues over (under) expenditures	(978,950)	(978,950)	928,296	1,907,246
OTHER FINANCING SOURCES (USES)				
Transfers out	(24,534)	(24,534)	(24,534)	-
Total other financing sources (uses)	(24,534)	(24,534)	(24,534)	-
Net change in fund balance	(1,003,484)	(1,003,484)	903,762	1,907,246
Fund balance, July 1	3,014,147	3,014,147	3,014,147	-
Prior period adjustments	-	-	(100,663)	(100,663)
Fund balance July 1, as restated	3,014,147	3,014,147	2,913,484	(100,663)
Fund balance, June 30	2,010,663	2,010,663	3,817,246	1,806,583

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, 2016

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	\$
REVENUES:				
Interest	2,500	2,500	10,543	8,043
Miscellaneous	5,000	5,000	1,551,675	1,546,675
Total revenues	7,500	7,500	1,562,218	1,554,718
EXPENDITURES:				
Current:				
Housing	92,620	392,620	330,092	62,528
Total expenditures	92,620	392,620	330,092	62,528
Net change in fund balance	(85,120)	(385,120)	1,232,126	1,617,246
Fund balance, July 1	2,340,986	2,340,986	2,340,986	-
Prior period adjustments	-	-	(997)	(997)
Fund balance July 1, as restated	2,340,986	2,340,986	2,339,989	(997)
Fund balance, June 30	2,255,866	1,955,866	3,572,115	1,616,249

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, 2016

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	\$
REVENUES:				
Intergovernmental Interest	1,982,271	1,982,271	1,544,541	(437,730)
	-	-	6,068	6,068
Total revenues	1,982,271	1,982,271	1,550,609	(431,662)
EXPENDITURES:				
General government	-	-	912	(912)
Housing	1,982,271	1,982,271	921,580	1,060,691
Total expenditures	1,982,271	1,982,271	922,492	1,059,779
Excess (deficiency) of revenues over (under) expenditures	-	-	628,117	628,117
OTHER FINANCING SOURCES (USES):				
Transfers out	(307,967)	(307,967)	(248,439)	59,528
Total other financing sources (uses)	(307,967)	(307,967)	(248,439)	59,528
Net change in fund balance	(307,967)	(307,967)	379,678	687,645
Fund balance, July 1	(237,372)	(237,372)	(237,372)	-
Prior period adjustments	-	-	(52,133)	(52,133)
Fund balance July 1, as restated	(237,372)	(237,372)	(289,505)	(52,133)
Fund balance, June 30	(545,339)	(545,339)	90,173	635,512

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC	TOTALS	
	\$	\$	\$	\$	\$	\$	
ASSETS							
Current Assets:							
Cash and investments	2,596,550	6,400,347	6,745,334	690,687	18,901	16,451,819	804,344
Cash and investments with fiscal agent	-	-	56	-	-	56	-
Restricted cash	-	1,594,637	-	-	-	1,594,637	-
Receivables:							
Accounts	656,837	1,884,243	529,835	108,294	-	3,179,209	278,410
Interest	2,512	-	-	-	-	2,512	-
Intergovernmental	-	-	13,934	123,816	-	137,750	-
Loans receivable	-	66,720	-	-	-	66,720	-
Deposits	-	-	-	-	-	-	60,000
Inventories	401,349	-	144	62,076	-	463,569	-
Total Current Assets	3,657,248	9,945,947	7,289,303	984,873	18,901	21,896,272	1,142,754
Noncurrent Assets:							
Cash and investments with fiscal agent	-	-	40,462	-	-	40,462	-
Advances receivable	3,791,759	1,235,329	1,042,768	21,465	-	6,091,321	-
Loan receivable	357,793	806,628	-	-	-	1,164,421	-
Capital assets:							
Land and improvements	218,742	8,943,007	1,457,959	7,583,895	-	18,203,603	-
Buildings	48,447,947	29,269,948	1,686,242	9,160,742	-	88,564,879	-
Machinery and equipment	5,865,828	4,665,598	9,601,062	310,532	-	20,443,020	-
Infrastructure	12,938,624	38,969,845	-	3,124,271	706,929	55,739,669	-
Construction in progress	2,063,021	49,576	-	-	-	2,112,597	-
Accumulated depreciation	(24,873,234)	(44,743,610)	(9,756,818)	(10,008,241)	(2,946)	(89,384,849)	-
Total Capital Assets (Net of accumulated depreciation)	44,660,928	37,154,364	2,988,445	10,171,199	703,983	95,678,919	-
Total Noncurrent Assets	48,810,480	39,196,321	4,071,675	10,192,664	703,983	102,975,123	-
Total Assets	52,467,728	49,142,268	11,360,978	11,177,537	722,884	124,871,395	1,142,754
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflow of resources - pension	753,567	1,333,702	838,885	196,669	-	3,122,823	-
Total deferred outflow of resources	753,567	1,333,702	838,885	196,669	-	3,122,823	-
LIABILITIES							
Current Liabilities:							
Accounts payable	856,786	448,105	281,959	31,121	-	1,617,971	96,735
Accrued personnel costs	129,848	254,302	142,451	40,461	-	567,062	-
Insurance claims payable	-	-	-	-	-	-	4,887,594
Interest payable	-	-	3,380	-	-	3,380	-
Customer deposits	6,175	-	-	-	-	6,175	-
Due to other funds	-	-	-	450,000	-	450,000	-
Unearned revenue	-	228,785	-	4,085	-	232,870	-
Current maturities of long term debt:							
Compensated absences	10,051	29,392	13,392	3,151	-	55,986	-
Liability for landfill closure	-	-	59,500	-	-	59,500	-
Revenue bonds	-	-	216,188	-	-	216,188	-
Note payable	-	184,970	-	-	-	184,970	-
Total Current Liabilities	1,002,860	1,145,554	716,870	528,818	-	3,394,102	4,984,329
Noncurrent Liabilities:							
Advance payable	-	-	-	3,225,189	706,929	3,932,118	-
Compensated absences	157,463	460,480	209,817	49,358	-	877,118	-
Post retirement	321,790	453,885	412,112	84,942	-	1,272,729	-
Liability for landfill closure	-	-	3,371,093	-	-	3,371,093	-
Net pension liability	3,306,708	5,852,387	3,681,092	862,999	-	13,703,186	-
Note payable	-	161,553	-	-	-	161,553	-
Revenue bonds payable (Net of capitalized discounts)	-	-	460,972	-	-	460,972	-
Total Noncurrent Liabilities	3,785,961	6,928,305	8,135,086	4,222,488	706,929	23,778,769	-
Total Liabilities	4,788,821	8,073,859	8,851,956	4,751,306	706,929	27,172,871	4,984,329
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow of resources - pension	863,620	1,528,481	961,399	225,391	-	3,578,891	-
Total deferred inflow of resources	863,620	1,528,481	961,399	225,391	-	3,578,891	-
Net Position							
Net investment in capital assets	44,660,928	36,807,841	2,311,285	10,171,199	703,983	94,655,236	-
Unrestricted	2,907,926	4,065,789	75,223	(3,773,690)	(688,028)	2,587,220	(3,841,575)
Total Net Position	47,568,854	40,873,630	2,386,508	6,397,509	15,955	97,242,456	(3,841,575)

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, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund	
	WATER \$	SEWER \$	SOLID WASTE \$	AIRPORT \$	FIBER OPTIC \$	TOTALS \$	\$
OPERATING REVENUES:							
Charges for services	12,755,561	14,307,054	10,746,436	2,158,606	23,817	39,991,474	10,285,143
Total Operating Revenue	12,755,561	14,307,054	10,746,436	2,158,606	23,817	39,991,474	10,285,143
OPERATING EXPENSES:							
Costs of sales and services	12,989,380	9,464,385	8,557,892	1,950,763	4,916	32,967,336	11,627,662
Depreciation	1,632,090	1,254,405	565,218	254,200	2,946	3,708,859	-
Total Operating Expenses	14,621,470	10,718,790	9,123,110	2,204,963	7,862	36,676,195	11,627,662
Operating Income (Loss)	(1,865,909)	3,588,264	1,623,326	(46,357)	15,955	3,315,279	(1,342,519)
NONOPERATING REVENUES (EXPENSES)							
Lease revenue	-	-	-	668,297	-	668,297	-
Grant revenue	-	69,525	20,636	-	-	90,161	-
Interest revenue	52,706	102,407	38,103	8,136	-	201,352	8,008
Interest expense	(915,295)	(12,656)	(57,637)	(20,686)	-	(1,006,274)	-
Total Nonoperating Revenues (expenses)	(862,589)	159,276	1,102	655,747	-	(46,464)	8,008
Income Before Contributions and Transfers	(2,728,498)	3,747,540	1,624,428	609,390	15,955	3,268,815	(1,334,511)
Capital contributions -							
Grants	294,081	-	-	189,842	-	483,923	-
Connection fees	124,265	50,822	-	-	-	175,087	-
Transfers in	-	-	-	-	-	-	35,958
Transfers out	(25,164)	(159,877)	(41,726)	(5,045)	-	(231,812)	-
Changes in Net Position	(2,335,316)	3,638,485	1,582,702	794,187	15,955	3,696,013	(1,298,553)
Total Net Position- Beginning	50,462,270	39,880,835	939,510	4,620,699	-	95,903,314	(2,471,902)
Prior period adjustments	(558,100)	(2,645,690)	(135,704)	982,623	-	(2,356,871)	(71,120)
Total Net Position - Beginning, as restated	49,904,170	37,235,145	803,806	5,603,322	-	93,546,443	(2,543,022)
Total Net Position - Ending	47,568,854	40,873,630	2,386,508	6,397,509	15,955	97,242,456	(3,841,575)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC	TOTALS	
	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	11,452,028	13,464,458	9,844,850	2,981,458	23,817	37,766,611	-
Receipts from interfund services provided	-	-	-	-	-	-	10,259,026
Payments to suppliers	(15,810,056)	(2,838,863)	(2,563,614)	(2,357,095)	(4,916)	(23,574,544)	(9,738,779)
Payments to employees	(3,286,994)	(5,829,028)	(3,390,700)	(789,984)	-	(13,296,706)	-
Payment for interfund services used	(1,045,910)	(1,028,502)	(1,693,315)	(285,073)	-	(4,052,800)	-
Net cash provided (used) by operating activities	<u>(8,690,932)</u>	<u>3,768,065</u>	<u>2,197,221</u>	<u>(450,694)</u>	<u>18,901</u>	<u>(3,157,439)</u>	<u>520,247</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from (to) other funds	(25,164)	(159,877)	(41,726)	(5,045)	-	(231,812)	35,958
Net cash provided (used) by noncapital financing activities	<u>(25,164)</u>	<u>(159,877)</u>	<u>(41,726)</u>	<u>(5,045)</u>	<u>-</u>	<u>(231,812)</u>	<u>35,958</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition of capital assets	(262,239)	(77,631)	-	(159,620)	-	(499,490)	-
Connection fees	124,265	50,822	-	-	-	175,087	-
Grant revenue	294,081	69,525	20,636	189,842	-	574,084	-
Principal paid on long term debt	-	(738,385)	(672,528)	-	-	(1,410,913)	-
Interest paid on long term debt	(1,049,846)	(14,808)	(60,901)	(20,686)	-	(1,146,241)	-
Net cash provided (used) by capital and related financing activities	<u>(893,739)</u>	<u>(710,477)</u>	<u>(712,793)</u>	<u>9,536</u>	<u>-</u>	<u>(2,307,473)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Lease revenue	-	-	-	668,297	-	668,297	-
Interest received	72,483	102,407	38,103	8,136	-	221,129	8,008
Net cash provided (used) by investment activities	<u>72,483</u>	<u>102,407</u>	<u>38,103</u>	<u>676,433</u>	<u>-</u>	<u>889,426</u>	<u>8,008</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(9,537,352)</u>	<u>3,000,118</u>	<u>1,480,805</u>	<u>230,230</u>	<u>18,901</u>	<u>(4,807,298)</u>	<u>564,213</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,133,902</u>	<u>4,994,866</u>	<u>5,264,585</u>	<u>460,457</u>	<u>-</u>	<u>22,853,810</u>	<u>240,131</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>2,596,550</u>	<u>7,994,984</u>	<u>6,745,390</u>	<u>690,687</u>	<u>18,901</u>	<u>18,046,512</u>	<u>804,344</u>
Reconciliation of Statement of Net Position:							
Cash and investments	2,596,550	6,400,347	6,745,334	690,687	18,901	16,451,819	804,344
Cash with fiscal agent	-	-	56	-	-	56	-
Restricted cash	-	1,594,637	-	-	-	1,594,637	-
	<u>2,596,550</u>	<u>7,994,984</u>	<u>6,745,390</u>	<u>690,687</u>	<u>18,901</u>	<u>18,046,512</u>	<u>804,344</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income (loss)	<u>(1,865,909)</u>	<u>3,588,264</u>	<u>1,623,326</u>	<u>(46,357)</u>	<u>15,955</u>	<u>3,315,279</u>	<u>(1,342,519)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,632,090	1,254,405	565,218	254,200	2,946	3,708,859	-
(Increase) decrease in receivables	(56,069)	(748,211)	(53,259)	(43,422)	-	(900,961)	(26,117)
(Increase) decrease in inventories	(94,085)	-	860	(42,214)	-	(135,439)	-
(Increase) decrease in loans receivable	197,025	62,222	-	-	-	259,247	-
(Increase) decrease in due from other governments	31,458	-	-	(112,247)	-	(80,789)	-
(Increase) decrease in advance receivable	313,308	(276,953)	125,621	(448,928)	-	(286,952)	-
(Increase) decrease in deferred outflows	(532,797)	(978,279)	133,225	30,939	-	(1,346,912)	-
Increase (decrease) in pension liability	201,676	853,515	482,803	112,053	-	1,650,047	-
Increase (decrease) in accounts payable	(73,548)	(272,274)	(79,335)	(20,290)	-	(445,447)	(124,921)
Increase (decrease) in claims payable	-	-	-	-	-	-	2,013,804
Increase (decrease) in accrued personnel costs	40,920	52,549	11,272	10,933	-	115,674	-
Increase (decrease) in retentions payable	(7,938)	-	-	(1,851)	-	(9,789)	-
Increase (decrease) in unearned revenue	(9,000)	-	-	-	-	(9,000)	-
Increase (decrease) in customer deposits	(16,014)	-	-	-	-	(16,014)	-
Increase (decrease) in due to other governments	(8,510,764)	-	-	-	-	(8,510,764)	-
Increase (decrease) in post retirement	(879)	(1,231)	(1,026)	(234)	-	(3,370)	-
Increase (decrease) in deferred inflows	59,594	234,058	(611,484)	(143,276)	-	(461,108)	-
Total adjustments	<u>(6,825,023)</u>	<u>179,801</u>	<u>573,895</u>	<u>(404,337)</u>	<u>2,946</u>	<u>(6,472,718)</u>	<u>1,862,766</u>
Net cash provided (used) by operating activities	<u>(8,690,932)</u>	<u>3,768,065</u>	<u>2,197,221</u>	<u>(450,694)</u>	<u>18,901</u>	<u>(3,157,439)</u>	<u>520,247</u>
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
 PRIVATE PURPOSE TRUST FUND
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

ASSETS	\$
Cash and Investments with Fiscal Agent	35,566
Restricted Cash	2,622,032
Receivables	
Notes	436,685
Prepaid Insurance	119,195
Total Assets	<u>3,213,478</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	313
Salaries Payable	8,973
Interest Payable	118,633
Debt Payable	53,029
Refunding Bonds Payable	1,145,000
Total Current Liabilities	<u>1,325,948</u>
Noncurrent liabilities	
Notes Payable	4,787,023
Post Retirement	64,461
Debt Payable	110,879
Refunding Bonds Payable	14,624,349
Total Non Current liabilities	<u>19,586,712</u>
Total Liabilities	<u>20,912,660</u>
Net Position	
Unrestricted	(17,467,124)
Total Net Position	<u>(17,467,124)</u>

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PRIVATE TRUST FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDIED JUNE 30, 2016

\$

ADDITIONS:

Interest Income	11,126
Intergovernment	<u>3,007,532</u>
Total Additions	<u>3,018,658</u>

DEDUCTIONS:

Administration	324,274
Interest	775,945
Cost Of Issuance	<u>309,873</u>
Total Deductions	<u>1,410,092</u>

Change in Net Position	<u>1,608,566</u>
------------------------	------------------

Net Position, July 1, 2015	(19,213,397)
Prior Period Adjustment	137,707
Net Position, July 1, 2015, Restated	<u>(19,075,690)</u>

Net Position, June 30, 2016	<u>(17,467,124)</u>
-----------------------------	---------------------

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016 (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 receipt of revenues for water services and records the associated expenses or capital investment. The water service provides water to Watsonville and the surrounding communities, which has a service population of approximately 50,000.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (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 receipt of Federal Aviation Agency (FAA) grants. The fund is to be supported by the fees the airport collects from fuel sales and facility use fees. The FAA provides substantial grant income for general airport improvements.

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, 2016 (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 equity

1. Deposits and investments

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

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

- Securities of the US Government, or its agencies
- 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, 2016 (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 are valued at their estimated fair value on the date donated.

The costs for normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, 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, 2016 (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, 2016 (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 two items which qualify 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 in spendable form (such as inventory) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

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

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, 2016 (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 \$191,856,026 are as follows:

Capital Assets:

Land	\$13,970,752
Buildings and improvements	134,468,036
Machinery and equipment	12,889,347
Infrastructure	28,609,887
Construction in progress	1,918,004
Total	<u>\$191,856,026</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

The details of (\$49,879,789) are as follows:

Long-term Debt:

Compensated Absences	(\$2,056,029)
Santa Cruz County Bank Loan	(2,425,193)
Notes Payable	(534,388)
City Loan	(22,175)
Sec 108 Loan	(1,272,000)
Postretirement	(3,315,510)
Special assessment bonds	(214,000)
Net Pension Liability	<u>(40,040,494)</u>
Total	<u>(\$49,879,789)</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 (\$2,987,669) are as follows:

Capital outlay	\$2,103,665
Transfer of assets to enterprise fund	(258,089)
Depreciation expense	<u>(4,833,245)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>(\$2,987,669)</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, 2016 (Continued)

\$461,128 during the fiscal year. The largest portion of this was increases in Public safety operating budgets to over projected increases in overtime costs. There were also some general government and streets operation costs added. City also increased special revenue funds appropriations by \$347,000 during the year. The City's Housing fund was increased by \$300,000. This amount was for operation costs for a housing project. Other Governmental Funds were increased by \$47,000.

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 – \$420,050, Impact Fee Fund - \$253,101, Housing Fund - \$16,549, Redevelopment and Housing Fund - \$35,535 and Other Governmental Funds - \$543,359.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2016, expenditures exceeded appropriations in the retirement tax fund by \$3,704, and parking garage fund by \$9,464. The parking garage will receive transfers in from other City funds in the future to reduce its negative balance. The retirement tax fund had excess fund balance to cover these costs.

C. Deficit fund equity

The special revenue funds had the following deficit fund balances: parking garage fund of \$731,353, and abandoned vehicle fund of \$38,599. The internal service fund had a deficit net position of \$3,841,575 as of June 30, 2016. 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, 2016, consisted of the following:

Total Pooled Deposits and Investments	\$45,886,351
Cash and Investments with Fiscal Agent	<u>76,084</u>
Total Cash and Investments	<u><u>\$45,962,435</u></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, 2016 (Continued)

Cash and investments (including monies held by trustees and fiscal agents) as of June 30, 2016 were as follows:

<u>Cash</u>	
Demand Deposits	\$ 6,239,657
Outstanding Checks	(833,591)
Deposits in Transit	<u>183,929</u>
Net Demand Deposits	5,589,995
Petty Cash	<u>12,176</u>
Cash Subtotal	\$5,602,171

<u>Investments</u>	
Assessment Bonds	214,022
Guaranteed Investment Contracts	76,084
Local Agency Investment Fund	<u>40,070,158</u>
Investment Subtotal	<u>40,360,264</u>
Total Cash and Investments	<u><u>\$45,962,435</u></u>

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

Governmental Funds:

General	\$8,419,213
Impact Fees	3,336,607
Low Income Housing Set-Aside	2,401,097
Redevelopment & Housing Grants	1,291,266
Debt Service	120,470
Other Non-major Funds	<u>8,844,866</u>
Total Governmental Funds	<u>24,413,519</u>

Business-type Activities:

Water	2,596,550
Sewer	7,994,984
Solid waste	6,785,852
Airport	690,687
Fiber Optic	<u>18,901</u>
Total Business-type Activities	<u>18,086,974</u>

Internal Service Fund	<u>804,344</u>
Total Inter Service Fund	<u>804,344</u>

Private Purpose Trust Fund	<u>2,657,598</u>
Total Private Purpose Trust Fund	<u>2,657,598</u>
Total Government Cash and Investments	<u><u>\$45,962,435</u></u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (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 recurring fair value measurements as of June 30, 2016:

		<u>Fair Value Measurement Using</u>		
		Quoted Prices In Active Market For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Investment by fair value level				<u>(Level 3)</u>
Assessment Bonds		\$214,022	\$214,022	\$ -
Investments measured at amortized cost:				
Guaranteed Investments				
Contracts		76,084		
State Investment				
Pool		40,070,158		
Total Investment		<u>\$40,360,264</u>	<u>\$214,022</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, 2016, the government carrying amount of deposits and cash on hand was \$5,602,171 and bank balances were \$6,239,657. Bank balances in excess of the FDIC insurance limitations are fully

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (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	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of * Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool	\$40,070,158	\$40,070,158	\$ -	\$ -
Debt of City of Watsonville	214,022	-	-	65,000 149,022
Guaranteed Inv. Contracts	<u>76,084</u>	<u>-</u>	<u>-</u>	<u>76,084</u>
Total	<u>\$40,360,264</u>	<u>\$40,070,158</u>	<u>\$ -</u>	<u>\$65,000</u> <u>\$225,106</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>Not Rated</u>
	<u>AAA</u>			
State Investment Pool	N/A	\$ -	\$ -	\$ 40,070,158
Debt of City of Watsonville	N/A	-	-	214,022
Guaranteed Inv. Contracts	<u>76,084</u>	<u>-</u>	<u>76,084</u>	<u>-</u>
Total	<u>\$40,360,264</u>	<u>\$ -</u>	<u>\$76,084</u>	<u>\$40,284,180</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (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, 2016 the amortized cost value of the pool was \$69,614,988,609 and the estimated fair value of the pool was \$69,641,162,418. 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:

Governmental Funds:	<u>General</u>	<u>Impact Fees</u>	<u>Housing</u>	<u>Redevelopment and Housing Grants</u>	<u>General Debt Service</u>	<u>Nonmajor Funds</u>
	\$	\$	\$	\$	\$	\$
Receivables:						
Interest	108,076	-	710,472	758,680	-	102,532
Taxes	2,948,558	-	-	-	4,573	1,775,344
Deferred Assessments	-	-	-	-	149,000	-
Accounts	1,304,596	-	-	-	-	67,089
Intergovernmental	<u>543,803</u>	<u>117,270</u>	<u>-</u>	<u>169,238</u>	<u>-</u>	<u>370,567</u>
Total governmental activities receivables	<u>4,905,033</u>	<u>117,270</u>	<u>710,472</u>	<u>927,918</u>	<u>153,573</u>	<u>2,315,532</u>
Proprietary Funds:						
Receivables:						
Accounts	<u>656,837</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Airport</u>	<u>Internal Service</u>
Interest	2,512	-	1,884,243	529,835	108,294	278,410
Intergovernmental	-	-	-	<u>13,934</u>	<u>123,816</u>	-
Total business-type activities receivables	<u>659,349</u>	<u>1,884,243</u>	<u>543,769</u>	<u>232,110</u>	<u>278,410</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, 2016 (Continued)

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

	<u>Unearned</u> \$
Grants drawdowns prior to meeting availability requirements:	
General Fund	870,680
Housing Fund	<u>964,043</u>
Total unearned revenue	<u>1,834,723</u>

Loans Receivable

Loans receivable at June 30, 2016 are summarized as follows:

General Fund:		
Barbara Schutter	\$3,750	
Successor Agency	<u>4,429,230</u>	4,432,980
Housing Fund:		
Pajaro Valley Affordable Housing Corporation	250,000	
Pajaro Valley Housing Corporation	512,000	
Barry Swenson	372,165	
Pacific Terrace Assoc.	225,000	
MP Transit City Associates	1,172,521	
South County Land Corporation	584,946	
Evergreen Apartments	1,000,000	
Down Payment Assistant Loans	2,158,498	
First Time Home Buyers	110,000	
Sunny Meadows	2,533,403	
Watsonville Pacific Associates	1,200,000	
Rental Rehab Loans	<u>939,200</u>	11,057,733
Redevelopment and Housing Funds:		
Rental Rehab Loans	4,636,870	
Monarch Disabled Housing	100,280	
South County Land Corporation	2,573,000	
First Time Home Buyers	6,104,455	
Down Payment Assistant Loans	<u>30,000</u>	13,444,605
Other Governmental Funds	<u>1,041,764</u>	<u>1,041,764</u>
Total		<u>\$29,977,082</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Proprietary Funds:

Water Fund:

Successor Agency:

Tax Increment Loan

\$357,793

\$357,793

Sewer Fund:

Pajaro Dunes (North) Project

241,328

Pajaro Dunes (South) Project

632,020

873,348

Total

\$1,231,141

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

Governmental activities:

Capital Assets, not being depreciated:	Beginning				Prior Period	Ending Balance
	Balance	Additions	Deletions	Reclass	Adjustments	
	\$	\$	\$	\$	\$	\$
Land and Improvements	14,682,237	-	-	(711,485)	-	13,970,752
Construction in Progress	374,153	1,801,940	(258,089)	-	-	1,918,004
Total Capital Assets not depreciated	15,056,390	1,801,940	(258,089)	(711,485)	-	15,888,756
Capital Assets, being depreciated:						
Building and Improvements	134,009,248	-	-	458,788	-	134,468,036
Machinery and Equipment	14,433,218	301,725	(156,203)	(1,851,681)	162,288	12,889,347
Infrastructure	26,505,509	-	-	2,104,378	-	28,609,887
Total Capital Assets being depreciated	174,947,975	301,725	(156,203)	711,485	162,288	175,967,270
Less accumulated depreciation for:						
Buildings and Improvements	(44,590,472)	(3,813,682)	-	3,976,000	-	(44,428,154)
Machinery and Equipment	(9,064,817)	(425,615)	156,203	(116,114)	-	(9,450,343)
Infrastructure	(17,525,538)	(593,948)	-	(3,859,886)	(938,765)	(22,918,137)
Total Accumulated depreciation	(71,180,827)	(4,833,245)	156,203	-	(938,765)	(76,796,634)
Total Capital Assets being depreciated, net	103,767,148	(4,531,520)	-	711,485	(776,477)	99,170,636
Governmental activities, Capital Assets, net	118,823,538	(2,729,580)	(258,089)	-	(776,477)	115,059,392

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Business Type activities:

Capital Assets, not being depreciated:	Beginning	Additions	Deletions	Reclass	Prior Period	
	Balance					Adjustments
	\$	\$	\$	\$	\$	\$
Land and Improvements	18,621,288	-	-	(417,685)	-	18,203,603
Construction in Progress	3,367,553	517,483	-	(1,772,439)	-	2,112,597
Total Capital Assets not depreciated	21,988,841	517,483	-	(2,190,124)	-	20,316,200
Capital Assets, being depreciated:						
Building and Improvements	86,333,885	-	-	2,276,457	(45,463)	88,564,879
Machinery and Equipment	20,491,292	270,675	-	(360,002)	41,055	20,443,020
Infrastructure	55,256,318	265,243	-	273,669	(55,561)	55,739,669
Total Capital Assets being depreciated	162,081,495	535,918	-	2,190,124	(59,969)	164,747,568
Less accumulated depreciation for:						
Buildings and Improvements	(28,949,081)	(2,143,780)	-	(1,225,561)	45,663	(32,272,759)
Machinery and Equipment	(11,419,043)	(787,336)	-	(2,983,656)	(2,566,780)	(17,756,815)
Infrastructure	(42,786,749)	(777,743)	-	4,209,217	-	(39,355,275)
Total Accumulated depreciation	(83,154,873)	(3,708,859)	-	-	(2,521,117)	(89,384,849)
Total Capital Assets being depreciated, net	78,926,622	(3,172,941)	-	2,190,124	(2,581,086)	75,362,719
Business Type activities, Capital Assets, net	100,915,463	(2,655,458)	-	-	(2,581,086)	95,678,919

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

Government activities:

General government	\$750,967
Public safety	2,803,005
Highways and streets	399,641
Culture and recreation	879,632
Total depreciation expense - governmental activities	<u>\$4,833,245</u>

Business-type activities:

Water	\$1,632,090
Sewer	1,254,405
Solid waste	565,218
Airport	254,200
Fiber optic	2,946
Total depreciation expense - business-type activities	<u>\$3,708,859</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2016, 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, 2016 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental Funds:		
General	\$ 1,425,362	-
Redevelopment and Housing	-	147,904
Nonmajor Funds	-	827,458
Total Governmental Funds	<u>1,425,362</u>	<u>975,362</u>
Enterprise Fund:		
Airport	-	450,000
Total Enterprise Fund	-	450,000
Total Government	<u>1,425,362</u>	<u>1,425,362</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, 2016 were as follows:

	<u>Advances Receivable</u>	<u>Advances Payable</u>
Governmental Funds:		
General	\$ 3,326,862	6,717,017
Impact Fees	483,133	-
Nonmajor Funds	<u>747,819</u>	-
Total Governmental Funds	<u>4,557,814</u>	<u>6,717,017</u>
Enterprise Funds:		
Water	3,791,759	-
Sewer	1,235,329	-
Solid Waste	1,042,768	-
Airport	21,465	3,225,189
Fiber Optic	-	<u>706,929</u>
Total Enterprise Funds	<u>6,091,321</u>	<u>3,932,118</u>
Total Government	<u>10,649,135</u>	<u>10,649,135</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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

	Transfers In				
	General Fund	General Debt Service Fund	Nonmajor Funds	Internal Service Fund	Transfers In
Transfers out					
General	-	122,724	87,085	24,292	234,101
Impact Fee Fund	-	24,534	-	-	24,534
Redevelopment & Housing Grant	117,032	131,407	-	-	248,439
Nonmajor Funds	2,902,001	27,843	59,355		2,989,199
Airport	-	-	5,045	-	5,045
Water	-	20,119	5,045	-	25,164
Sewer	-	149,119	5,045	5,713	159,877
Solid Waste	-	<u>30,728</u>	<u>5,045</u>	<u>5,953</u>	<u>41,726</u>
Total Transfers Out	<u>3,019,033</u>	<u>506,474</u>	<u>166,620</u>	<u>35,958</u>	<u>3,728,085</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 \$50,553 for the fiscal year ended June 30, 2016. The future minimum lease payments as of June 30, 2016 are as follows:

Fiscal Year Ending	<u>June 30,</u>	<u>Amount</u>
		\$
2017		50,840
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>908,314</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

F. Long-term debt

The government's long-term debt obligations are repaid by the following funds: Revenue Bonds from the Sewer, Solid Waste, and Water Enterprise Funds; Capital Leases; and the Airport Enterprise Fund; and notes from the City's Debt Service Fund.

Fire Capital Lease - On January 13, 2012, the government issued a \$122,671 City Loan with an interest rate of 5.05% to call the purchase option for the lease agreement, with the option to purchase, with Kansas Bank of Manhattan to finance a portion of the costs of building two new fire engines, which started in November of 2006. The total amount for which the government was obligated under the lease was \$179,792.

2012 Fire Engine Loan

Fiscal Year	Principal	Interest	Debt Service
	\$	\$	\$
2017	<u>22,175</u>	<u>1,179</u>	<u>23,354</u>
Total	<u>22,175</u>	<u>1,179</u>	<u>23,354</u>

Revenue bonds

Revenue bonds constitute special obligations of the government solely secured by a lien on and pledge of the net revenues of the water, sewer, and solid waste systems. The revenue bonds are collateralized by the revenue of the water, sewer, and solid waste systems and the various special funds established by the bond ordinances. There is no defeased debt outstanding at June 30, 2016.

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, 2016 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>677,160</u>
Total Revenue Bonds	<u>677,160</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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

2009 Solid Waste Revenue Refunding Bonds

Fiscal Year	Principal	Interest	Debt Service
	\$	\$	\$
2017	216,188	26,819	243,007
2018	225,584	17,423	243,007
2019	235,388	7,618	243,006
Total	<u>677,160</u>	<u>51,860</u>	<u>729,020</u>

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, 2016 consist of the following:

	Amount
	\$
\$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%.	4,000
\$55,944 Watson Drive assessment district bonds due in annual principal installments ranging from \$944 to \$4,000 through September 2017, interest rate is 6.00%.	4,000
\$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%.	196,000

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

\$100,022 7th, 8th & 9th street assessment district bonds due in annual principal installments ranging from \$5,000 to \$10,000 through September 2017, interest rate is 6.0%. 10,000
 Total limited obligation bonds payable at June 30, 2016 214,000

The annual requirements to amortize all limited obligation bonds outstanding as of June 30, 2016 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	65,000	13,840	78,840
2018	51,000	9,685	60,685
2019	49,000	6,370	55,370
2020	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>
Total	<u>214,000</u>	<u>33,080</u>	<u>247,080</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.

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, 2016 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	167,522	126,106	293,628
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>2,425,193</u>	<u>804,715</u>	<u>3,229,908</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Notes payable

Section 108 -

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, 2016 is as follows:

Maturity	Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
		\$	\$	\$
2016		117,000	25,220	142,220
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		170,000	2,423	172,423
Total		<u>1,272,000</u>	<u>142,460</u>	<u>1,414,460</u>

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 amortize the PG&E note outstanding as of June 30, 2016 are as follows:

Street Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2017	30,298
2018	30,298
2019	30,298
2020	30,298
2021	15,149
Total	<u>136,341</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Rodriquez Parking Garage Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2017	21,018
2018	<u>6,012</u>
Total	<u>27,030</u>

Beach Street Parking Garage Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2017	6,825
2018	6,825
2019	6,825
2020	<u>5,120</u>
Total	<u>25,595</u>

City Buildings Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2017	10,555
2018	10,555
2019	10,555
2020	10,555
2021	10,555
2022	<u>8,795</u>
Total	<u>61,570</u>

Waste Water System Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2017	184,970
2018	112,297
2019	10,555
2020	10,555
2021	10,555
2022	10,555
2023	<u>7,036</u>
Total	<u>346,523</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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, 2016 are as on the following page:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	59,834	8,071	67,905
2018	61,642	6,263	67,905
2019	63,505	4,400	67,905
2020	65,420	2,486	67,906
2021	<u>33,451</u>	<u>503</u>	<u>33,954</u>
Total	<u>283,852</u>	<u>21,723</u>	<u>305,575</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 \$1,314,260.

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, 2016, the new landfill cell had used 91% of its projected space. The estimated closure and post-closure costs were \$1,732,897 and \$1,444,081. The estimated remaining closure and postclosure costs are \$155,785 and \$129,821, which will be recognized as the remaining capacity is used (estimated to be 1.6 years). To date, the fund has \$539,250 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,577,113 and post-closure costs of \$1,314,230 for the open phase III cell for a total of \$3,430,593. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

POSTEMPLOYMENT LIABILITY

Plan Description

Employees who have retired from service at eligible retirement age may continue health care benefits at their own cost until age sixty-five. At June 30, 2016, thirty five retired employees participated in this program.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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 2015-2016, expenditures of \$83,400 were recognized for post-retirement health insurance contributions on a pay as you go basis.

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

Annual OPEB Cost

For fiscal year 2015-2016, the City's annual OPEB cost (expense) of \$62,000 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)	151,900
Amortization	<u>(242,300)</u>
Annual OPEB Cost (expense)	62,000
Benefit Payments	<u>(83,400)</u>
Decrease in OPEB	(21,400)
Beginning Net OPEB Obligation	4,674,100
Ending Net OPEB Obligation	<u>\$4,652,700</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2015-2016, was as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	% of Annual OPEB Cost <u>Contributed</u>	
		39.2%	Net OPEB <u>Obligation</u>
June 30, 2014	\$270,200	39.2%	\$4,530,800
June 30, 2015	\$262,300	45.4%	\$4,674,100
June 30, 2016	\$62,000	134.5%	\$4,652,700

Funded Status and Funding Progress

The funded status of the plan is as follows:

	6/30/15	6/30/13
	<u>Actuarial</u>	<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>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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 6.25%. 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.

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, 2016, was as following on the next page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental type activities:					
General Obligation Debt:					
City loan	44,408	-	(22,233)	22,175	22,175
Debt payable	2,584,193	-	(159,000)	2,425,193	167,522
Notes payable	<u>2,047,137</u>	-	<u>(240,749)</u>	<u>1,806,388</u>	<u>245,530</u>
Subtotal	4,675,738	-	(421,982)	4,253,756	435,227
Bonds payable:					
Special assessment debt with government commitment	290,000	-	(76,000)	214,000	65,000
Other liabilities:					
Compensated absences	2,132,318	1,032,312	(1,108,601)	2,056,029	123,362
Postretirement liability	3,333,541	50,332	(68,363)	3,315,510	-
Net pension	<u>35,171,429</u>	<u>9,091,795</u>	<u>(4,222,730)</u>	<u>40,040,494</u>	<u>-</u>
Governmental activity Liabilities	<u>45,603,026</u>	<u>10,174,439</u>	<u>(5,897,676)</u>	<u>49,879,789</u>	<u>623,589</u>
Business-type activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	29,330,458	-	(28,653,298)	677,160	216,188
Less deferred amounts:					
For issuance discounts	<u>(273,450)</u>	-	<u>273,450</u>	-	-
Total bonds payable	29,057,008	-	(28,379,848)	677,160	216,188
Due to other					
government	10,878,769	-	(10,878,769)	-	-
City loans	244,914	-	(244,914)	-	-
Notes Payable	-	531,493	(184,970)	346,523	184,970
Compensated absences	989,414	559,261	(615,571)	933,104	55,986
Postretirement liability	1,276,099	11,668	(15,038)	1,272,729	-
Net pension	12,053,139	2,507,034	(856,987)	13,703,186	-
Landfill closure/postclosure	<u>3,402,805</u>	<u>87,288</u>	<u>(59,500)</u>	<u>3,430,593</u>	<u>59,500</u>
Business-type activity					
Long-term liabilities	<u>57,902,148</u>	<u>3,696,744</u>	<u>(41,235,597)</u>	<u>20,363,295</u>	<u>516,644</u>

All funds with employees are required to pay their portion of costs related to both postretirement and Pension liabilities.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

G. Deferred Inflows of Resources

At June 30, 2016, deferred inflows of resources, reported in the governmental fund financial statements, consisted of the following on the next page:

	REDEVELOPMENT AND HOUSING				DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	GRANTS			
Deferred Inflows of Resources	\$	\$	\$	\$	\$	\$	\$
Unavailable revenue	4,468,398	117,270	11,768,205	14,426,523	149,000	1,525,883	32,455,279
Total Deferred Inflows of Resources	<u>4,468,398</u>	<u>117,270</u>	<u>11,768,205</u>	<u>14,426,523</u>	<u>149,000</u>	<u>1,525,883</u>	<u>32,455,279</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, 2016 was as follows:

	<u>General Fund</u>
Inventories	\$37,734
Advance Receivable	\$3,326,862

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, 2016 totaled \$4,887,594 as follows: Health Benefits \$130,377; General Liability \$473,523; and Workers' Compensation \$4,283,694.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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>2014-15</u>	<u>2015-16</u>
Claims incurred but not reported:	\$	\$
Beginning	447,871	679,912
Incurred claims	6,022,751	7,445,441
Claims paid	<u>(5,790,710)</u>	<u>(7,527,553)</u>
Ending	<u>679,912</u>	<u>597,800</u>
Claims payable:		
Beginning	3,105,547	2,193,878
Incurred claims	4,259,523	3,893,519
Claims paid	<u>(5,171,192)</u>	<u>(1,803,703)</u>
Ending	<u>2,193,878</u>	<u>4,283,694</u>

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, 2016, total estimated claims payable for General Liability were \$467,423.

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.

**CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)**

Grant audits

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

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 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, thirty five former employees participated in the program.

E. Defined benefit pension plans

1. CALPERS miscellaneous employees plan

A. General Information about the Miscellaneous Pension Plan

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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.

The Plans' provisions and benefits in effect at June 30, 2016, 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	13.723%	13.723%	13.723%
Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for the Plan			
	<u>Miscellaneous</u>		
Inactive employees or beneficiaries currently receiving benefits		256	
Inactive employees entitled to but not yet receiving benefits		267	
Active employees		<u>249</u>	
Total		<u>772</u>	

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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 \$2,299,823 for the fiscal year ended June 30, 2016.

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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
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)
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 January 2014 actuarial experience study for the period 1997 to 2011. 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

<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.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan follow:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014:	\$ 118,860,636	\$ 93,971,806	\$ 24,888,830
Change in the year:			
Service cost	2,251,567	-	2,251,567
Interest on the total pension Liability	8,741,399	-	8,741,399
Change of Assumptions	(2,194,095)	-	(2,194,095)
Differences between Expected And Actual Experience	(1,088,430)	-	(1,088,430)
Contributions – employer	-	1,881,144	(1,881,144)
Contributions – employee	-	1,064,147	(1,064,147)
Net investment income	-	2,081,010	(2,081,010)
Benefit payments	(4,874,482)	(4,874,482)	-
Administrative Expense	<u>-</u>	<u>(105,873)</u>	<u>105,873</u>
Net change	<u>2,835,959</u>	<u>45,946</u>	<u>2,790,013</u>
Balance at June 30, 2015	<u>\$ 121,696,595</u>	<u>\$ 94,017,752</u>	<u>\$ 27,678,843</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:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

<u>Miscellaneous</u>	
1% Decrease	6.65%
Net pension liability	\$ 44,434,721
Current Discount Rate	7.65%
Net pension liability	\$ 27,678,843
1% Increase	8.65%
Net pension liability	\$ 13,835,300

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

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

For the fiscal year ended June 30, 2016, the City recognized pension expense of \$1,335,869. At June 30, 2016, 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	\$2,299,823	\$ -
Difference between actual and expected experience	-	(794,260)
Changes in assumptions	-	(1,601,096)
Net difference between projected and actual earnings on plan investments	4,007,916	(4,833,590)
Total	<u>\$6,307,739</u>	<u>\$(7,228,946)</u>

The amount of \$2,299,823 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, 2016. 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>Deferred Outflows/(Inflows) of Resources</u>
<u>June 30</u>	
2016	\$ (1,496,387)
2017	\$ (1,496,387)
2018	\$ (1,230,235)
2019	\$ 1,001,979

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

F. Payable to Pension Plan

At June 30, 2016, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

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.

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, 2016, are summarized as follows:

	Safety		
	Prior to	After	After
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 employee contribution rates	18.524%	15.627%	11.153%

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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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 \$2,921,288 for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the City reported a liability of \$26,604,837 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, 2015, the City's proportion was 0.633%, which increased by .037% from its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the City recognized pension expense of \$2,161,315. 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, 2016, 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	\$2,921,288	\$ -
Difference between actual and expected experience	-	(348,783)
Changes in assumptions	-	(1,604,180)
Net difference between projected and actual earnings on plan investments	-	(813,009)
Changes to proportion and difference between City contribution and proportionate share of contribution	-	(573,147)
Adjusted due to difference in proportion	<u>651,664</u>	<u>(137,964)</u>
Total	<u>\$3,572,952</u>	<u>\$(3,477,083)</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, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

The amount of \$2,921,288 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, 2016.

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 on the next page:

Fiscal Year ended	Deferred Outflows/(Inflows) of <u>Resources</u>
<u>June 30</u>	
2016	\$ (1,366,813)
2017	\$ (1,341,939)
2018	\$ (1,114,687)
2019	\$ 998,020

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

	<u>Safety</u>
Valuation date	June 30, 2014
Measurement Date	June 30, 2015
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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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, 2015 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.

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 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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.

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	\$42,978,530
Current Discount Rate	7.65%
Net pension liability	\$26,064,837
1% Increase	8.65%
Net pension liability	\$12,195,917

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, 2016, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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, 2016 for government wide governmental activities, governmental activities and business-type activities. The adjustments were as follows:

	Beginning Balance \$	Additions \$	Decreases \$	Balance Restated \$
Government Wide:				
Governmental	118,447,825	203,901	(1,958,669)	116,693,057
Business-type	95,903,314	1,079,772	(3,436,643)	93,546,443
Governmental Funds:				
General Fund	4,630,140	128,882	(922,765)	3,836,257
Impact Fees Fund	3,014,147	-	(100,663)	2,913,487
Housing	2,340,986	-	(997)	2,339,989
Redevelopment and				
Housing Grants Fund	(237,372)	1,023	(53,156)	(289,505)
Other Governmental				
Funds	8,378,995	73,996	(33,491)	8,419,500
Proprietary Funds:				
Water	50,462,270	51,632	(609,732)	49,904,170
Sewer	39,880,835	44,308	(2,689,998)	37,235,145
Solid Waste	939,510	1,409	(137,113)	803,806
Airport	4,620,699	982,623	-	5,603,322
Internal Service Fund	(2,471,902)	-	(71,120)	(2,543,022)

Following are detailed explanations of prior period adjustments:

Government Wide –

Governmental Activities:

1. Adjustments were made to correct prior year's over accrued revenues (\$100,663) and under accrued \$73,996.
2. Adjustments were made to correct prior year's expenses (\$105,740) and \$129,905.
3. Adjustment was made to reduce prior years overstated advance receivable (\$460,157) and corresponding cash (\$460,157).
4. Adjustment was made to correct prior year's over accrual of receivable (\$2,319) and deferred revenue (\$53,156).
5. Adjustment was made to beginning capital assets (\$776,477).

Business-type Activities:

1. Adjustment was made to correct over accrual of accounts receivable (\$31,459) and under accrual of \$108,026.
2. Adjustment was made to correct prior year's expenses \$51,432 and (\$292,604).
3. Adjustment was made to reduce prior years overstated advance payable \$460,157 and corresponding cash \$460,157.
4. Adjustment was made to beginning capital assets (\$2,581,086).
5. Adjustment was made to record a prior year loan (\$531,494).

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Governmental Funds:

General Fund:

1. Adjustments were made to correct prior year's expenditures of (\$132) and \$128,882.
2. Adjustment was made to correct prior year's over accrual of receivable (\$2,319).
3. Adjustment was made to reduce prior years overstated advance receivable (\$460,157) and corresponding cash (\$460,157).

Impact Fees Fund:

1. Adjustments were made to correct prior year's revenues of (\$100,663).

Housing:

1. Adjustments were made to correct prior year's expenses of (\$997).

Redevelopment and

Housing Grants Fund:

1. Adjustments were made to correct prior year's expenses of \$1,023.
2. Adjustment was made to correct prior year's deferred revenue (\$53,156).

Other Governmental Funds:

1. Adjustment was made to correct prior year's accrued revenue \$73,996.
2. Adjustments were made to correct prior year's expenditures (\$33,491).

Proprietary Funds:

Water Fund:

1. Adjustment was made to correct prior year's receivables (\$31,459).
2. Adjustment was made to beginning capital assets (\$546,778).
3. Adjustments were made to correct prior year's expense \$51,632 and (\$31,495).

Sewer Fund:

1. Adjustments were made to correct prior year's receivables of \$44,308.
2. Adjustment was made to record a prior year loan (\$531,494).
3. Adjustment was made to beginning capital assets (\$2,034,498).
4. Adjustments were made to correct prior year's expense (\$124,006).

Solid Waste Fund:

1. Adjustment was made to correct prior year's receivables \$1,409.
2. Adjustments were made to correct prior year's expenses (\$137,103).
3. Adjustment was made to beginning capital assets (\$10).

Airport Fund:

1. Adjustment was made to correct prior year's receivables \$62,309.
2. Adjustment was made to reduce prior years overstated advance payable \$460,157 and corresponding cash \$460,157.

Internal Service Fund:

1. Adjustment was made to correct prior year's expenses (\$71,120).

G. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 72

For the fiscal year ended June 30, 2016, the City 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

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's financial statements are explained in Note IV.- A – Cash and investments.

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).

In future fiscal years, successor agencies will only be 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 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the government funds of the City. 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, 2016:

	<u>Balance</u> \$	<u>Additions</u> \$	<u>Reductions</u> \$	<u>Balance</u> \$	<u>One Year</u> \$
Tax allocation bonds	17,950,000	-	(17,950,000)	-	-
Refunding tax allocation bonds	-	14,210,000	-	14,210,000	1,145,000
Less:					
Bond Premium	<u>-</u>	<u>1,559,349</u>	<u>-</u>	<u>1,559,349</u>	<u>-</u>
Total Bonds	17,950,000	15,769,349	(17,950,000)	15,769,349	1,145,000
Debt payable Postretirement liability	215,392	-	(51,484)	163,908	53,029
Notes payable	64,461	-	-	64,461	-
Total	<u>5,501,304</u>	<u>-</u>	<u>(722,143)</u>	<u>4,787,023</u>	<u>622,699</u>
	<u><u>23,731,158</u></u>	<u><u>15,769,349</u></u>	<u><u>(18,723,627)</u></u>	<u><u>20,784,741</u></u>	<u><u>1,820,728</u></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.

The annual requirements to amortize the loan outstanding as of June 30, 2016 is as follows:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Series A:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	350,000	350,844	700,844
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>11,790,000</u>	<u>3,522,357</u>	<u>15,312,357</u>

Series B:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	795,000	25,351	820,351
2018	805,000	24,450	829,450
2019	<u>820,000</u>	<u>8,200</u>	<u>828,200</u>
Total	<u>2,420,000</u>	<u>58,001</u>	<u>2,478,001</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>
	\$
2017	53,029
2018	54,619
2019	<u>56,260</u>
Total	<u>163,908</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Postretirement liability

As of the transfer of the former Agency assets to the Successor Agency, the Postretirement 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

On May 25, 2004, the City's Water Utility Fund loaned the former Redevelopment Agency \$1,243,601 to fund the its payment to the County of Santa Cruz for excess tax increment errors which resulted in excess tax increment payments. The loan has an interest rate of 2.5% with repayment to be over 20 years. As of the transfer of the former Agency assets to the Successor Agency, the note balance was \$720,253. The State of California deemed this note 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. The amount of the repayment was recalculated with an interest rate in accordance with Health and Safety Code Section 34191.4(b)(2). The loan balance was adjusted to \$554,818.

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:

Water Utility Fund

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2017	\$ 349,931	960	\$ 350,891
Total	<u>349,931</u>	<u>960</u>	<u>350,891</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 (Continued)

Library Project Loan

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2017	272,768	7,540	280,308
2018	635,642	2,458	638,100
2019	<u>284,169</u>	<u>758</u>	<u>284,927</u>
Total	<u>1,192,579</u>	<u>10,756</u>	<u>1,203,335</u>

Parking Garage Loan

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2019	307,225	46,482	353,708
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>398,223</u>	<u>1,065</u>	<u>399,288</u>
Total	<u>3,236,651</u>	<u>68,744</u>	<u>3,305,395</u>

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, 2016. The adjustments were as follows:

	<u>Beginning Balance</u> \$	<u>Additions</u> \$	<u>Decreases</u> \$	<u>Balance Restated</u> \$
Beginning Net Position	<u>(19,213,397)</u>	<u>137,707</u>	<u>-</u>	<u>(19,075,690)</u>

Following are detailed explanations of prior period adjustments:

1. Adjustment was made to correct prior year expenses which were rejected by the State of California, Department of Finance.

Required Supplementary Information

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST 2 YEARS*
JUNE 30, 2016

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

	2015	2016
TOTAL PENSION LIABILITY	\$	\$
Service Cost	2,348,593	2,251,567
Interest	8,369,558	8,741,399
Changes of Assumptions	-	(2,194,095)
Difference between Expected and Actual Experience	-	(1,088,430)
Benefit Payments, Including Refunds of Employee Contributions	<u>(4,554,651)</u>	<u>(4,874,482)</u>
Net Change in Total Pension Liability	6,163,500	2,835,959
Total Pension Liability - Beginning	<u>112,697,136</u>	<u>118,860,636</u>
Total Pension Liability - Ending (a)	<u>118,860,636</u>	<u>121,696,595</u>
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	1,750,491	1,881,144
Contributions - Employee	1,087,253	1,064,147
Net Investment Income (2)	14,090,974	2,081,010
Benefit Payments, Including Refunds of Employee Contributions	<u>(4,554,651)</u>	<u>(4,874,482)</u>
Administrative Expense	-	(105,873)
Net Change in Fiduciary Net Position	<u>12,374,067</u>	<u>45,946</u>
Plan Fiduciary Net position - Beginning	<u>81,597,739</u>	<u>93,971,806</u>
Plan Fiduciary Net position - Ending (b)	<u>93,971,806</u>	<u>94,017,752</u>
Plan Net Pension Liability/(Asset) - Ending (a) - (b)	24,888,830	27,678,843
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.06%	77.26%
Covered- employee payroll	\$ 17,390,545	\$ 17,452,658
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	143.12%	158.59%

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, therefore only two years are shown.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CONTRIBUTIONS

LAST 2 YEARS*

JUNE 30, 2016

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

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

Notes to Schedule

Valuation Date: 6/30/2014

Methods and assumptions used to determine contribution rates:

Discount Rate	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.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 2 YEARS*
JUNE 30, 2016

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

	2015	2016
Proportion of the net pension liability	0.358953%	0.379737%
Proportionate share of the net pension liability	\$ 22,335,737	\$ 26,064,837
Covered- employee payroll	\$ 10,541,326	\$ 9,190,095
Proportionate share of the net pension liability as percentage of covered-employee payroll	211.89%	283.62%
Plan's total pension liability	\$30,829,966,631	\$ 31,771,217,402
Plan's fiduciary net position	\$24,607,502,515	\$ 24,907,305,871
Plan fiduciary net position as a percentage of the total pension liability	79.82%	78.40%

*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

CITY OF WATSONVILLE, CALIFORNIA

SCHEDULE OF CONTRIBUTIONS
LAST 2 YEARS*
JUNE 30, 2016

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

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

Notes to Schedule

Valuation Date: 6/30/2014

Methods and assumptions used to determine contribution rates:

Discount Rate	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, therefore only two years are shown.

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 Sales Tax

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, 2016

	Special Revenue Funds					
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$
ASSETS:						
Cash and investments	2,140,417	155,811	164,214	329,032	604,023	1,369,015
Receivables:						
Interest	-	-	-	30,970	-	-
Taxes	156,663	-	-	-	413,404	29
Accounts	4,136	-	909	-	-	8,519
Intergovernmental	304,878	-	-	-	-	-
Advances receivable	-	-	-	-	327,644	156,079
Loans receivable	-	-	-	61,463	-	-
Total Assets	2,606,094	155,811	165,123	421,465	1,345,071	1,533,642
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable	173,929	-	-	4,875	47,467	92,520
Accrued personnel costs	663	-	5,310	6,249	-	1,516
Retentions payable	-	-	-	-	-	32,815
Due to other funds	-	-	-	-	-	-
Deposits	-	66,505	-	-	-	-
Total Liabilities	174,592	66,505	5,310	11,124	47,467	126,851
Deferred Inflows of Resources						
Unavailable revenue	304,878	-	11,020	92,433	-	-
Total Deferred Inflows of Resources	304,878	-	11,020	92,433	-	-
Total Liabilities and Deferred Inflows of Resources	479,470	66,505	16,330	103,557	47,467	126,851
Fund Balances:						
Restricted for:						
Gas tax	2,126,624	-	-	-	-	-
Assets seizure	-	89,306	-	-	-	-
Business development	-	-	148,793	-	-	-
Rental rehabilitation	-	-	-	317,908	-	-
Library	-	-	-	-	1,297,604	-
Parks development	-	-	-	-	-	1,406,791
Retirement tax	-	-	-	-	-	-
Measure G	-	-	-	-	-	-
Inclusionary housing	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	2,126,624	89,306	148,793	317,908	1,297,604	1,406,791
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	2,606,094	155,811	165,123	421,465	1,345,071	1,533,642

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Special Revenue Funds					
	RETIREMENT TAX	PARKING GARAGE	MEASURE G	ABANDONED VEHICLE	INCLUSIONARY HOUSING	
	\$	\$	\$	\$	\$	\$
ASSETS:						
Cash and investments	342,965	541	2,009,288	-	1,729,560	8,844,866
Receivables:						
Interest	-	-	-	-	71,562	102,532
Taxes	505,452	-	685,338	14,458	-	1,775,344
Accounts	-	50,596	-	2,929	-	67,089
Intergovernmental	-	-	65,689	-	-	370,567
Advances receivable	-	-	-	-	264,096	747,819
Loans receivable	-	-	-	-	980,301	1,041,764
Total Assets	848,417	51,137	2,760,315	17,387	3,045,519	12,949,981
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable	-	11,018	124,403	-	14,576	468,788
Accrued personnel costs	-	-	47,700	-	-	61,438
Retention payable	-	-	-	-	-	32,815
Due to other funds	-	771,472	-	55,986	-	827,458
Deposits	-	-	-	-	-	66,505
Total Liabilities	-	782,490	172,103	55,986	14,576	1,457,004
Deferred Inflows of Resources						
Unavailable revenue	-	-	65,689	-	1,051,863	1,525,883
Total Deferred Inflows of Resources	-	-	65,689	-	1,051,863	1,525,883
Total Liabilities and Deferred Inflows of Resources	-	782,490	237,792	55,986	1,066,439	2,982,887
Fund Balances:						
Restricted for:						
Gas tax	-	-	-	-	-	2,126,624
Assets seizure	-	-	-	-	-	89,306
Business development	-	-	-	-	-	148,793
Rental rehabilitation	-	-	-	-	-	317,908
Library	-	-	-	-	-	1,297,604
Parks development	-	-	-	-	-	1,406,791
Retirement tax	848,417	-	-	-	-	848,417
Measure G	-	-	2,522,523	-	-	2,522,523
Inclusionary housing	-	-	-	-	1,979,080	1,979,080
Unassigned	-	(731,353)	-	(38,599)	-	(769,952)
Total Fund Balances	848,417	(731,353)	2,522,523	(38,599)	1,979,080	9,967,094
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	848,417	51,137	2,760,315	17,387	3,045,519	12,949,981

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, 2016

	Special Revenue Funds					
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT
	\$	\$	\$	\$	\$	\$
REVENUES:						
Taxes	1,119,956	-	-	-	3,541,218	-
Licenses, permits and fees	-	-	63,982	2,392	52,487	291,279
Intergovernmental	173,916	-	-	-	42,133	-
Interest	11,060	410	931	-	5,171	5,960
Miscellaneous	23,082	18,057	4,234	-	600	-
Total revenues	1,328,014	18,467	69,147	2,392	3,641,609	297,239
EXPENDITURES:						
Current:						
General government	-	-	121,048	96,837	-	-
Public safety	-	-	-	-	-	-
Housing	-	-	-	-	-	-
Streets	1,150,924	-	-	-	-	-
Culture and recreation	-	-	-	-	3,264,182	802,000
Total expenditures	1,150,924	-	121,048	96,837	3,264,182	802,000
Excess (deficiency) of revenues over (under) expenditures	177,090	18,467	(51,901)	(94,445)	377,427	(504,761)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	(91,543)	-
Total other financing sources (uses)	-	-	-	-	(91,543)	-
Net change in fund balances	177,090	18,467	(51,901)	(94,445)	285,884	(504,761)
Fund balances, July 1	1,918,089	70,839	201,902	412,353	1,011,720	1,911,552
Prior period adjustments	31,445	-	(1,208)	-	-	-
Fund balances, July 1, as restated	1,949,534	70,839	200,694	412,353	1,011,720	1,911,552
Fund balances, June 30	2,126,624	89,306	148,793	317,908	1,297,604	1,406,791

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, 2016

	Special Revenue Funds					
	RETIREMENT TAX	PARKING GARAGE	MEASURE G	ABANDONED VEHICLE	INCLUSIONARY HOUSING	TOTALS
	\$	\$	\$	\$	\$	\$
REVENUES:						
Taxes	3,088,126	-	3,657,156	-	-	11,406,456
Licenses, permits and fees	-	164,452	-	52,624	106,749	733,965
Intergovernmental	-	-	145,678	-	-	361,727
Interest	-	-	8,957	-	10,936	43,425
Miscellaneous	-	251	3,000	-	186,631	235,855
Total revenues	3,088,126	164,703	3,814,791	52,624	304,316	12,781,428
EXPENDITURES:						
Current:						
General government	3,704	211,952	-	-	-	433,541
Public safety	-	-	2,540,763	82,912	-	2,623,675
Housing	-	-	-	-	136,933	136,933
Streets	-	-	-	-	-	1,150,924
Culture and recreation	-	-	-	-	-	4,066,182
Total expenditures	3,704	211,952	2,540,763	82,912	136,933	8,411,255
Excess (deficiency) of revenues over (under) expenditures	3,084,422	(47,249)	1,274,028	(30,288)	167,383	4,370,173
Transfers in	-	92,988	-	73,632	-	166,620
Transfers out	(2,832,607)	(27,843)	-	-	(37,206)	(2,989,199)
Total other financing sources (uses)	(2,832,607)	65,145	-	73,632	(37,206)	(2,822,579)
Net change in fund balances	251,815	17,896	1,274,028	43,344	130,177	1,547,594
Fund balances, July 1	596,602	(749,249)	1,248,495	(81,943)	1,838,635	8,378,995
Prior period adjustments	-	-	-	-	10,268	40,505
Fund balances, July 1, as restated	596,602	(749,249)	1,248,495	(81,943)	1,848,903	8,419,500
Fund balances, June 30	848,417	(731,353)	2,522,523	(38,599)	1,979,080	9,967,094

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, 2016**

	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	1,119,956	(495,044)	-	-	-	-
Intergovernmental	1,474,000	1,474,000	173,916	(1,300,084)	-	-	-	-
Interest	6,000	6,000	11,060	5,060	2,500	2,500	410	(2,090)
Miscellaneous	-	-	23,082	23,082	10,000	10,000	18,057	8,057
Total revenues	3,095,000	3,095,000	1,328,014	(1,766,986)	12,500	12,500	18,467	5,967
EXPENDITURES:								
Public safety	-	-	-	-	156,113	156,113	-	156,113
Streets	3,730,429	3,730,429	1,150,924	2,579,505	-	-	-	-
Total expenditures	3,730,429	3,730,429	1,150,924	2,579,505	156,113	156,113	-	156,113
Net change in fund balances	(635,429)	(635,429)	177,090	812,519	(143,613)	(143,613)	18,467	162,080
Fund balances, July 1	1,918,089	1,918,089	1,918,089	-	70,839	70,839	70,839	-
Prior period adjustments	-	-	31,445	31,445	-	-	-	-
Fund balances, July 1, as restated	1,918,089	1,918,089	1,949,534	31,445	70,839	70,839	70,839	-
Fund balances, June 30	1,282,660	1,282,660	2,126,624	843,964	(72,774)	(72,774)	89,306	162,080

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, 2016**

	BUSINESS DEVELOPMENT				ECONOMIC DEVELOPMENT				Variance With Final Budget - Positive (Negative)
	Budgeted Amounts			Variance With Final Budget - Positive (Negative)	Budgeted Amounts			Variance With Final Budget - Positive (Negative)	
	Original	Final	Actual		Original	Final	Actual		
REVENUES:									
Licenses, permits and fees	70,000	70,000	63,982	(6,018)	3,000	3,000	2,392	(608)	
Interest	-	-	931	931	-	-	-	-	
Miscellaneous	10,000	10,000	4,234	(5,766)	-	-	-	-	
Total revenues	80,000	80,000	69,147	(10,853)	3,000	3,000	2,392	(608)	
EXPENDITURES:									
Current:									
General government	129,004	129,004	121,048	7,956	510,899	510,899	96,837	414,062	
Total expenditures	129,004	129,004	121,048	7,956	510,899	510,899	96,837	414,062	
Excess (deficiency) of revenues over (under) expenditures	(49,004)	(49,004)	(51,901)	(2,897)	(507,899)	(507,899)	(94,445)	413,454	
Net change in fund balances	(49,004)	(49,004)	(51,901)	(2,897)	(507,899)	(507,899)	(94,445)	413,454	
Fund balances, July 1	201,902	201,902	201,902	-	412,353	412,353	412,353	-	
Prior period adjustments	-	-	(1,208)	(1,208)	-	-	-	-	
Fund balances, July 1, as restated	201,902	201,902	200,694	(1,208)	412,353	412,353	412,353	-	
Fund balances, June 30	152,898	152,898	148,793	(4,105)	(95,546)	(95,546)	317,908	413,454	

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, 2016**

	LIBRARY				PARKS DEVELOPMENT			
	Budgeted Amounts		Variance With Final Budget - Positive (Negative)		Budgeted Amounts		Variance With Final Budget - Positive (Negative)	
	Original	Final	Actual	\$	Original	Final	Actual	\$
REVENUES:								
Taxes	3,209,940	3,209,940	3,541,218	331,278	-	-	-	-
Licenses, permits and fees	11,000	11,000	52,487	41,487	105,000	105,000	291,279	186,279
Intergovernmental	45,000	45,000	42,133	(2,867)	-	-	-	-
Interest	25,000	25,000	5,171	(19,829)	5,000	5,000	5,960	960
Miscellaneous	7,000	7,000	600	(6,400)	-	-	-	-
Total revenues	3,297,940	3,297,940	3,641,609	343,669	110,000	110,000	297,239	187,239
EXPENDITURES:								
Current:								
Culture and recreation	3,890,246	3,890,246	3,264,182	626,064	891,816	891,816	802,000	89,816
Total expenditures	3,890,246	3,890,246	3,264,182	626,064	891,816	891,816	802,000	89,816
Excess (deficiency) of revenues over (under) expenditures	(592,306)	(592,306)	377,427	969,733	(781,816)	(781,816)	(504,761)	277,055
OTHER FINANCING SOURCES (USES):								
Transfers out	(91,543)	(91,543)	(91,543)	-	-	-	-	-
Total other financing sources (uses)	(91,543)	(91,543)	(91,543)	-	-	-	-	-
Net change in fund balances	(683,849)	(683,849)	285,884	969,733	(781,816)	(781,816)	(504,761)	277,055
Fund balances, July 1	1,011,720	1,011,720	1,011,720	-	1,911,552	1,911,552	1,911,552	-
Fund balances, June 30	327,871	327,871	1,297,604	969,733	1,129,736	1,129,736	1,406,791	277,055

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, 2016**

	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	2,832,607	2,832,607	3,088,126	255,519	-	-	-	-
Licenses, permits, and fees	-	-	-	-	154,000	154,000	164,452	10,452
Miscellaneous	-	-	-	-	56,000	56,000	251	(55,749)
Total revenues	2,832,607	2,832,607	3,088,126	255,519	210,000	210,000	164,703	(45,297)
EXPENDITURES:								
Current:								
General government	-	-	3,704	(3,704)	155,488	202,488	211,952	(9,464)
Total expenditures	-	-	3,704	(3,704)	155,488	202,488	211,952	(9,464)
Excess (deficiency) of revenues over (under) expenditures	2,832,607	2,832,607	3,084,422	251,815	54,512	7,512	(47,249)	(54,761)
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	92,988	92,988	92,988	-
Transfers out	(2,832,607)	(2,832,607)	(2,832,607)	-	(27,843)	(27,843)	(27,843)	-
Total other financing sources (uses)	(2,832,607)	(2,832,607)	(2,832,607)	-	65,145	65,145	65,145	-
Net change in fund balances	-	-	251,815	251,815	119,657	72,657	17,896	(54,761)
Fund balances, July 1	596,602	596,602	596,602	-	(749,249)	(749,249)	(749,249)	-
Prior period adjustments	-	-	-	-	-	-	-	-
Fund balances, July 1, as restated	596,602	596,602	596,602	-	(749,249)	(749,249)	(749,249)	-
Fund balances, June 30	596,602	596,602	848,417	251,815	(629,592)	(676,592)	(731,353)	(54,761)

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, 2016

	MEASURE G				ABANDONED VEHICLE			
	Budgeted Amounts			Variance With Final Budget - Positive (Negative)	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual		Original	Final	Actual	
REVENUES:								
Taxes	2,850,400	2,850,400	3,657,156	806,756	-	-	-	-
Intergovernmental	125,000	125,000	145,678	20,678	-	-	-	-
Licenses, permits and fees	-	-	-	-	60,000	60,000	52,624	(7,376)
Interest	2,400	2,400	8,957	6,557				
Miscellaneous	-	-	3,000	3,000	-	-	-	-
Total revenues	2,977,800	2,977,800	3,814,791	836,991	60,000	60,000	52,624	(7,376)
EXPENDITURES:								
Current:								
Public safety	3,133,659	3,133,659	2,540,763	592,896	82,912	82,912	82,912	-
Total expenditures	3,133,659	3,133,659	2,540,763	592,896	82,912	82,912	82,912	-
Excess (deficiency) of revenues over (under) expenditures	(155,859)	(155,859)	1,274,028	1,429,887	(22,912)	(22,912)	(30,288)	(7,376)
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	73,632	73,632	73,632	-
Total other financing sources (uses)	-	-	-	-	73,632	73,632	73,632	-
Net change in fund balances	(155,859)	(155,859)	1,274,028	1,429,887	50,720	50,720	43,344	(7,376)
Fund balances, July 1	1,248,495	1,248,495	1,248,495	-	(81,943)	(81,943)	(81,943)	-
Fund balances, June 30	1,092,636	1,092,636	2,522,523	1,429,887	(31,223)	(31,223)	(38,599)	(7,376)

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, 2016**

INCLUSIONARY HOUSING				Variance With Final Budget -	
Budgeted Amounts		Actual	Positive (Negative)		
Original	Final				
\$	\$	\$	\$		
REVENUES:					
Licenses, permits and fees	50,000	50,000	106,749	56,749	
Interest	20,000	20,000	10,936	(9,064)	
Miscellaneous	10,000	10,000	186,631	176,631	
Total revenues	<u>80,000</u>	<u>80,000</u>	<u>304,316</u>	<u>224,316</u>	
EXPENDITURES:					
Current:					
Housing	280,394	280,394	136,933	143,461	
Total expenditures	<u>280,394</u>	<u>280,394</u>	<u>136,933</u>	<u>143,461</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(200,394)</u>	<u>(200,394)</u>	<u>167,383</u>	<u>367,777</u>	
OTHER FINANCING SOURCES (USES):					
Transfers out	(50,000)	(50,000)	(37,206)	12,794	
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(37,206)</u>	<u>12,794</u>	
Net change in fund balance	<u>(250,394)</u>	<u>(250,394)</u>	<u>130,177</u>	<u>380,571</u>	
Fund balance, July 1	1,838,635	1,838,635	1,838,635	-	
Prior period adjustments	-	-	10,268	10,268	
Fund balance, July 1, as restated	<u>1,838,635</u>	<u>1,838,635</u>	<u>1,848,903</u>	<u>10,268</u>	
Fund balance, June 30	<u>1,588,241</u>	<u>1,588,241</u>	<u>1,979,080</u>	<u>390,839</u>	

CITY OF WATSONVILLE, CALIFORNIA
CITY OF WATSONVILLE - DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GENERAL				
				Variance With Final Budget -
	Budgeted Amounts		Actual	Positive (Negative)
	Original	Final	\$	\$
REVENUES:				
Intergovernmental	79,697	79,697	81,135	1,438
Special assessment	94,339	94,339	77,489	(16,850)
Total revenues	<u>174,036</u>	<u>174,036</u>	<u>158,624</u>	<u>(15,412)</u>
EXPENDITURES:				
Debt service:				
Principal	497,982	497,982	429,286	68,696
Interest and fiscal charges	242,055	242,055	182,527	59,528
Total expenditures	<u>740,037</u>	<u>740,037</u>	<u>611,813</u>	<u>128,224</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(566,001)</u>	<u>(566,001)</u>	<u>(453,189)</u>	<u>112,812</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	566,001	566,001	506,474	(59,527)
Total other financing sources (uses)	<u>566,001</u>	<u>566,001</u>	<u>506,474</u>	<u>(59,527)</u>
Net change in fund balance	-	-	53,285	53,285
Fund balance, July 1	<u>71,758</u>	<u>71,758</u>	<u>71,758</u>	<u>-</u>
Fund balance, June 30	<u>71,758</u>	<u>71,758</u>	<u>125,043</u>	<u>53,285</u>

CITY OF WATSONVILLE, CALIFORNIA**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS****COMPARATIVE SCHEDULE BY SOURCE****JUNE 30, 2016**

	2016	2015
	\$	\$
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	13,970,752	14,682,237
Buildings and improvements	134,468,036	134,009,248
Machinery and equipment	12,889,348	14,433,218
Infrastructure	28,609,887	26,505,509
Construction in progress	1,918,003	374,153
 Total Governmental Funds Capital Assets	 <u>191,856,026</u>	 <u>190,004,365</u>
 INVESTMENT IN GOVERNMENTAL CAPITAL ASSETS BY SOURCE		
General fund	148,755,739	146,904,078
Other special revenue funds	38,989,559	38,989,559
Capital leases	4,110,728	4,110,728
 Total Governmental Funds Capital Assets	 <u>191,856,026</u>	 <u>190,004,365</u>

CITY OF WATSONVILLE, CALIFORNIA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY FUNCTION AND ACTIVITY

JUNE 30, 2016

Function and Activity	Machinery and Equipment							Total
	Land	Buildings	Improvements		Infrastructure	Construction in Progress		
	\$	\$	\$	\$	\$	\$	\$	\$
City Manager	-	-	-	15,352	-	-	-	15,352
City Clerk	-	-	-	59,083	-	-	-	59,083
Community Develop.	-	-	-	104,417	-	-	-	104,417
Finance	-	-	-	527,924	-	-	-	527,924
Fire	-	974,576	226,800	2,026,699	-	-	-	3,228,075
Library	-	964,278	77,700	3,379,257	-	-	-	4,421,235
Nondepartmental	13,970,752	80,651,697	6,161,675	421,774	21,503,128	-	-	122,709,026
Parks and Recreation	-	4,047,324	3,851,382	1,056,255	-	1,090,281	-	10,045,242
Police	-	3,034,469	172,100	1,999,071	-	-	-	5,205,640
Public Works	-	31,006,519	3,299,516	3,299,516	7,106,759	827,722	-	45,540,032
Total Governmental Funds Capital Assets	13,970,752	120,678,863	13,789,173	12,889,348	28,609,887	1,918,003	191,856,026	

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, 2016**

Function and Activity	Capital Assets Assets			Capital Assets Assets
	June 30, 2015	Additions	Deletions	
	\$	\$	\$	\$
City Manager	15,352	-	-	15,352
City Clerk	59,083	-	-	59,083
Community Develop.	93,807	10,610	-	104,417
Finance	502,001	25,923	-	527,924
Fire	2,915,325	312,749	-	3,228,074
Library	4,413,847	7,388	-	4,421,235
Nondepartmental	122,709,026	-	-	122,709,026
Parks and Recreation	9,027,054	1,018,188	-	10,045,242
Police	5,491,684	-	286,044	5,205,640
Public Works	<u>44,777,186</u>	<u>762,847</u>	<u>-</u>	<u>45,540,033</u>
Total Government Funds Capital Assets	<u>190,004,365</u>	<u>2,137,705</u>	<u>286,044</u>	<u>191,856,026</u>

STATISTICAL SECTION

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

Contents	Page
Financial Trends	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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities										
Net investment in capital assets	90,258	109,668	116,232	114,050	112,462	128,634	121,354	118,302	114,148	110,806
Restricted	28,461	31,184	23,467	31,320	46,586	39,086	41,689	42,945	44,188	16,754
Unrestricted	12,221	5,924	14,074	2,737	(18,060)	(7,011)	(4,812)	(2,634)	(39,888)	(7,184)
Total governmental activities net position	<u>130,940</u>	<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>
Business-type activities										
Net investment in capital assets	55,569	83,945	95,129	98,788	101,914	99,867	100,375	99,277	98,484	94,655
Restricted	-	-	-	-	2,834	-	-	-	-	-
Unrestricted	41,067	32,403	21,837	16,476	4,612	8,671	6,562	10,865	(2,581)	2,587
Total business-type activities net position	<u>96,636</u>	<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>
Primary government										
Net investment in capital assets	145,827	193,613	211,361	212,838	214,376	228,501	221,729	217,579	212,632	205,461
Restricted	28,461	31,184	23,467	31,320	49,420	39,086	41,689	42,945	44,188	16,754
Unrestricted	53,288	38,327	35,911	19,213	(13,448)	1,660	1,750	8,231	(42,469)	(4,597)
Total primary government net position	<u>227,576</u>	<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>

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Expenses:										
Governmental activities:										
General government	11,031	13,913	10,777	9,100	8,010	7,729	7,140	11,773	5,494	7,151
Public safety	19,704	24,624	24,161	22,752	22,258	18,888	21,249	23,020	25,716	27,751
Housing	4,321	2,879	1,413	8,734	6,118	3,091	1,543	820	1,298	1,389
Highways and streets	4,142	5,643	4,686	6,656	7,775	8,926	7,110	6,708	4,697	3,043
Culture and recreation	4,475	5,319	5,509	7,393	7,498	7,510	7,511	7,334	7,916	8,613
Interest on long term debt	3,505	3,602	3,384	3,269	3,089	1,153	346	189	132	112
Total government activities	<u>47,178</u>	<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>
Business-type activities:										
Water	8,871	10,295	13,871	11,483	11,187	11,213	11,249	11,001	11,583	15,537
Sewer	8,440	8,517	8,886	9,335	9,342	9,842	9,863	9,298	10,741	10,731
Solid Waste	8,259	8,373	8,873	8,460	8,165	8,583	8,557	8,699	10,136	9,181
Airport	3,671	2,642	2,863	2,364	2,520	2,539	3,347	2,888	2,580	2,225
Fiber Optic	-	-	-	-	-	-	-	-	-	8
Total business-type activities	<u>29,241</u>	<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>
Total primary government	<u><u>76,419</u></u>	<u><u>85,807</u></u>	<u><u>84,423</u></u>	<u><u>89,546</u></u>	<u><u>85,962</u></u>	<u><u>79,474</u></u>	<u><u>77,915</u></u>	<u><u>81,730</u></u>	<u><u>80,293</u></u>	<u><u>85,741</u></u>
Program Revenues:										
Governmental activities:										
Charges for services:										
General government	5,687	3,985	3,894	4,768	4,177	3,095	3,489	9,249	5,488	5,524
Public safety	1,769	1,550	2,068	1,793	1,556	1,703	1,623	1,549	1,396	1,853
Housing	2,234	3,960	477	512	3,612	903	97	1,619	391	-
Highways and streets	3,006	3,583	2,779	2,757	3,586	16	1,579	2,501	1,585	1,858
Culture and recreation	858	613	3,632	1,029	697	1,165	739	827	1,330	833
Operating grants and contributions	18,079	12,850	5,220	5,311	3,443	6,906	4,926	2,657	2,393	3,590
Capital grants and contributions	10,012	3,436	1,737	2,732	2,546	962	-	-	-	-
Total governmental activates program revenues	<u>41,645</u>	<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>
Business-type activities:										
Charges for services:										
Water	13,875	25,460	12,884	9,089	8,513	10,119	9,964	12,363	12,075	12,756
Sewer	6,624	6,348	6,449	7,557	10,140	8,782	9,128	10,864	10,046	14,307
Solid Waste	8,229	8,689	7,798	7,890	8,521	8,712	8,952	9,580	10,471	10,746
Airport	2,380	2,558	2,239	2,057	1,973	2,229	2,254	1,844	1,956	2,159
Fiber Optic	-	-	-	-	-	-	-	-	-	23
Operating grants and contributions	950	811	669	1,046	1,828	990	784	603	901	759
Capital grants and contributions	5,407	6,309	1,393	2,018	128	172	994	1,156	590	659
Total business-type activities program revenues	<u>37,465</u>	<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>

Continued

CITY OF WATSONVILLE, CALIFORNIA

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net (expense) / revenue										
Governmental activities	(5,533)	(26,003)	(30,318)	(39,001)	(35,132)	(32,547)	(32,448)	(31,442)	(32,670)	(34,401)
Business-type activities	8,224	20,348	(3,061)	(1,985)	(111)	(1,174)	(939)	4,525	999	3,727
Total primary government net expense	<u>2,691</u>	<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>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	21,140	21,352	20,759	18,082	17,380	13,825	12,383	12,090	11,868	12,846
Sales taxes	10,202	11,165	9,969	9,207	10,101	9,774	9,276	11,436	13,988	16,693
Utility users taxes	2,966	2,955	2,775	2,711	2,938	2,934	3,068	3,029	3,437	3,183
Franchise taxes	183	157	159	401	606	365	417	365	404	456
Other taxes	1,006	1,188	977	961	1,075	708	1,069	1,120	1,295	1,457
Intergovernmental revenue not restricted	1,251	1,195	1,051	1,299	1,803	1,255	1,235	1,686	1,475	1,120
Transfers	-	-	-	-	-	-	171	211	226	232
Unrestricted investment earnings	1,635	1,441	1,126	1,245	873	2,190	2,173	1,890	1,916	2,098
Total governmental activities	<u>38,383</u>	<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>
Business-type activities:										
Transfers	-	-	-	-	-	-	(171)	(211)	(226)	(231)
Unrestricted investment earnings	2,165	2,142	3,780	455	1,116	724	291	263	269	201
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Total business-type activities	<u>2,165</u>	<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>
Total primary government	<u>40,548</u>	<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>
Change in net position before extraordinary item										
Governmental activities	32,850	13,450	6,498	(5,095)	(356)	(1,496)	(2,656)	385	1,939	3,683
Business-type activities	10,389	22,490	719	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696
Total primary government	<u>43,239</u>	<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>
Extraordinary items										
Governmental activities	-	-	-	-	-	21,010	-	-	-	-
Total primary government	-	-	-	-	-	21,010	-	-	-	-
Change in net position										
Governmental activities	32,850	13,450	6,498	(5,095)	(356)	19,514	(2,656)	385	1,939	3,683
Business-type activities	10,389	22,490	719	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696
Total primary government	<u>43,239</u>	<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>

Concluded

CITY OF WATSONVILLE, CALIFORNIA

Governmental Activities Tax Revenues By Source

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$
2007	21,140	10,202	183	2,966	1,006	35,497
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

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General fund										
Nonspendable	N/A	N/A	N/A	N/A	69	44	65	56	35	3,365
Restricted	6,035	5,407	2,749	2,749	-	-	-	-	-	-
Unassigned	949	1,244	72	(852)	1,530	4,305	4,428	1,881	4,595	4,228
Total general fund	6,984	6,651	2,821	1,897	1,599	4,349	4,493	1,937	4,630	7,593
 All other governmental funds										
Restricted, reported in										
Special revenue funds	15,352	10,379	15,281	11,757	10,483	12,158	12,069	12,021	14,566	18,216
Debt service funds	4,496	5,970	8,118	6,394	3,064	932	87	79	72	125
Unassigned	-	-	-	-	(4,110)	(1,967)	(1,021)	(910)	(1,069)	(770)
Total all other governmental funds	19,848	16,349	23,399	18,151	13,547	11,123	11,135	11,190	13,569	17,571

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues										
Taxes	36,748	38,012	35,781	32,660	33,903	28,860	27,448	29,725	32,466	35,754
Licenses, permits, and fees	6,649	4,716	4,221	2,970	3,506	3,272	2,757	4,855	5,248	5,795
Intergovernmental	13,171	15,995	8,889	5,608	4,461	7,670	4,530	3,032	2,458	3,336
Charges for services	2,083	3,949	3,581	4,326	5,243	4,773	4,704	2,447	2,458	2,945
Fines	466	608	666	984	757	804	588	622	552	690
Interest	3,534	2,463	1,783	1,650	1,127	2,344	2,309	2,084	2,076	2,168
Special assessment	153	156	144	147	112	172	229	92	91	77
Miscellaneous	2,219	4,203	3,519	1,929	449	956	475	825	1,995	2,810
Total revenues	<u>65,023</u>	<u>70,102</u>	<u>58,584</u>	<u>50,274</u>	<u>49,558</u>	<u>48,851</u>	<u>43,040</u>	<u>43,682</u>	<u>47,344</u>	<u>53,575</u>
Expenditures										
Current:										
General government	10,298	8,937	10,924	7,567	6,021	5,594	6,407	10,831	6,211	7,024
Public safety	18,759	16,415	20,807	21,738	20,250	18,473	20,353	21,155	22,887	25,173
Housing	4,285	1,933	1,244	8,720	5,919	3,191	1,566	820	1,298	1,389
Streets	3,875	3,647	3,913	6,084	6,844	8,598	6,509	6,182	4,252	3,655
Culture and recreation	3,955	3,156	4,162	6,039	5,745	6,152	6,051	6,743	7,172	8,045
Capital outlay	33,143	37,607	8,997	417	1,877	3,929	1,134	-	-	-
Debt service:										
Principal	1,715	1,828	1,877	1,993	8,549	2,139	1,381	439	495	429
Interest and fiscal charges	3,543	3,602	3,436	3,259	3,086	1,267	299	195	159	183
Total expenditures	<u>79,573</u>	<u>77,125</u>	<u>55,360</u>	<u>55,817</u>	<u>58,291</u>	<u>49,343</u>	<u>43,700</u>	<u>46,365</u>	<u>42,474</u>	<u>45,898</u>
Excess (deficiency) of revenues over (under) expenditures	(14,550)	(7,023)	3,224	(5,543)	(8,733)	(492)	(660)	(2,683)	4,870	7,677
Other financing sources (uses)										
Bond/note proceeds	179	-	-	-	-	3,014	695	191	-	-
Transfers in	10,550	7,916	7,169	9,460	18,321	5,883	4,388	3,238	3,340	3,692
Transfers out	(10,550)	(7,916)	(7,169)	(9,460)	(18,321)	(5,883)	(4,217)	(3,309)	(3,150)	(3,496)
Total other financing sources (uses)	<u>179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,014</u>	<u>866</u>	<u>120</u>	<u>190</u>	<u>196</u>
Net change in fund balances before extraordinary items	(14,371)	(7,023)	3,224	(5,543)	(8,733)	2,522	206	(2,563)	5,060	7,873
Extraordinary items	-	-	-	-	-	(228)	-	-	-	-
Net change in fund balances	<u>(14,371)</u>	<u>(7,023)</u>	<u>3,224</u>	<u>(5,543)</u>	<u>(8,733)</u>	<u>2,294</u>	<u>206</u>	<u>(2,563)</u>	<u>5,060</u>	<u>7,873</u>
Debt service as a percentage of noncapital expenditures	12.8%	15.9%	12.9%	10.5%	26.0%	8.1%	4.1%	1.4%	1.6%	1.4%

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

CITY OF WATSONVILLE, CALIFORNIA

General Governmental Tax Revenues By Source

Last Ten Fiscal Years

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

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Utility User Tax	Other Tax	Total
	\$	\$	\$	\$	\$	\$
2007	21,140	10,202	183	2,966	1,006	35,497
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

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
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
2007	2,345,741	518,890	93,057	323,246	173,577	147,425	3,307,086	1.00	3,307,086	1.00
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

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**

Year	Basic Countywide Levy	School Districts	Retirement	Total
2007	1.000	0.052	0.110	1.162
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

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

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2016
(amounts expressed in thousands)

	2016			2007		
	Taxable Assessed Value	Percentage of Total Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Taxable Assessed Value	
		\$	%		\$	%
Watsonville Hospital Corp	51,343	1	1.45	57,038	1	1.72
Ow George Jr Trustee	23,045	2	0.65			
Freedom Assoc LLC	23,006	3	0.65	14,493	6	0.44
Granite Construction Co	22,367	4	0.63	26,705	3	0.81
Harvest Drive Properties LLC	19,576	5	0.55			
Hd Dev Of Maryland Inc.	17,825	6	0.50	17,140	5	0.52
S Martinelli Co	16,417	7	0.46	37,300	2	1.13
Allen Richard H Successor Truste	16,276	8	0.46			
Terminal Freezers LLC	16,202	9	0.46			
Fox Racing Shox	16,417	10	0.46			
Meadows Mobile Manor LLC				13,355	9	0.40
Birds Eye Foods Inc				18,975	4	0.57
Watsonville Square LLC				13,979	7	0.42
Cascade Properties LLC				13,845	8	0.42
Albertsons Inc.				12,989	10	0.39
Totals	222,474		6.27	225,819		6.42

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
	\$	\$		\$	\$	\$
2007	8,062,419	8,062,419	100%	587,280	-	8,649,699
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

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)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Debt	Special Assessment Debt	Capital Leases	Revenue Bonds	General Obligation Debt	Capital Leases			
	\$	\$	\$	\$	\$	\$	\$		
2007	27,290	1,057	5,684	16,085	-	2,330	52,446	N/A	1.023
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	0.59%	0.104

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 \$
2007	26,399	825	25,574	0.77%	196
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

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									
	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$
Debt limit	118,487	142,972	135,408	120,357	117,333	122,989	121,772	123,043	133,232	139,945
Total net debt applicable to limit	27,290	26,399	25,984	25,003	24,658	4,800	5,241	5,082	4,676	4,129
Legal debt margin	91,993	140,964	109,873	94,356	90,605	117,136	114,555	118,367	128,556	135,816
Total net debt applicable to the limit as a percentage of debt limit	23.032%	18.464%	19.189%	20.774%	21.015%	3.903%	4.304%	4.130%	3.510%	2.950%

Legal Debt Margin Calculation for Fiscal Year 2016

Assessed value	\$ 3,531,191
Add back: exempt real property	200,675
Total assessed value	<u>3,731,866</u>
Debt Limit = 3.75% of assessed valuation	139,945
Debt applicable to limit	4,254
Less: Amount set aside for repayment of general obligation debt	125
Total net debt applicable to limit	<u>4,129</u>
Legal debt margin	<u><u>\$ 135,816</u></u>

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

Computation of Direct and Overlapping Bonded Debt

June 30, 2016

(amounts expressed in thousands, except per capita amount)

Jurisdiction	Total Debt Outstanding	Percentage Applicable	Estimated Share of Overlapping Debt
			\$
Direct Debt:			
City of Watsonville	4,129	100%	4,129
Total of Direct Debt			4,129
Overlapping Tax and Assessment Debt:			
City of Watsonville 1915 Act Bonds	214	100%	214
Cabrillo Joint Community College District	123,401	9.26%	11,432
Pajaro Valley Unified School District	159,385	26.66%	42,497
Santa Cruz County Certificates of Participations	73,987	9.33%	6,903
Santa Cruz County Office of Education	9,910	9.33%	925
Total Overlapping Debt	366,897		61,970
Total Direct and Overlapping Bonded Debt			66,099

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**

Fiscal Year	Population (1)	Personal (2) Income (amounts expressed in thousands)	Per Capita Personal Income	Median Age (3)	School (4) Enrollment	Unemployment Rate (5)
		\$	\$			
2007	51,258	N/A	N/A	33.3	21,101	10.70%
2008	51,703	N/A	N/A	28.1	21,619	14.00%
2009	51,555	886,385	17,193	28.9	21,024	21.60%
2010	51,916	889,425	17,132	27.3	19,381	23.40%
2011	51,243	887,062	17,311	27.3	19,542	22.40%
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%

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

	2016			2007		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Pajaro Valley Unified School District	4,837	1	21.99%	2,182	1	12.54%
Watsonville Community Hospital	615	2	2.80%	707	2	4.06%
West Marin Products	375	3	1.70%			
City of Watsonville *	367	4	1.67%	473	3	2.72%
Fox Factory	301	5	1.37%	300	4	1.72%
S Martinelli & Co.	288	6	1.31%	254	5	1.46%
Salud Para La Gente	320	7	1.45%	160	10	0.92%
Community Bridges	181	8	0.82%			
Tucci Learning Solutions	175	9	0.80%			
Couch Distributing	162	10	0.74%	160	9	0.92%
Target				211	6	1.21%
Granite Construction				200	7	1.15%
Home Depot				184	8	1.06%
Total	<u><u>7,621</u></u>		<u><u>34.65%</u></u>	<u><u>4,831</u></u>		<u><u>27.76%</u></u>

* Full time equivalent employees

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

CITY OF WATSONVILLE, CALIFORNIA

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

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government	8	*/**	7	7	6	6	7	6	6	7
City Clerk	4	**	4	4	4	4	4	3	3	3
Community Development	17		19	16	16	15	16	13	14	13
Finance	24	*	25	25	24	22	22	22	17	16
Fire	36		40	40	36	36	36	35	41	41
Police										
Officers	72		73	75	74	70	70	73	68	64
Civilians	20		21	21	19	16	18	19	17	22
										67
										26
Library	26		26	25	25	24	24	29	29	27
Parks & Community Services	37		38	37	33	28	30	27	27	26
Public Works	26		26	24	22	17	17	16	16	14
Airport	7		7	7	8	8	8	9	9	9
LLMAD	1		1	1	1	1	1	1	1	1
Parking Garage	2		2	3	3	2	-	-	-	-
Redevelopment and Housing	7		8	8	8	7	10	4	4	5
Solid Waste	36		37	36	35	34	34	37	38	36
Wastewater	35		38	38	41	42	41	44	46	47
Water	25		27	27	28	30	30	27	31	34
	383	399	394	383	362	368	366	361	369	382

* Information Services and Geological Information Services Divisions were transferred out of the Finance Department in the General Government 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>2007</u>	<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>
General Government:										
City Council meetings	24	21	27	23	24	25	24	22	27	19
Resolutions processed	311	243	232	186	209	158	169	153	181	199
Recruitments	42	29	25	12	21	36	29	52	46	59
Community Development:										
Planning application reviews	486	543	451	373	341	289	332	259	393	361
Construction inspections	6,208	4,361	3,344	2,470	1,508	1,459	1,784	1,851	1,725	1,165
Building Permits	978	727	1032	1,757	1,175	766	852	625	768	817
Finance:										
Payroll checks issued	12,188	13,477	13,446	13,344	13,575	12,784	12,336	12,203	12,327	12,511
Utility accounts	14,466	15,541	14,546	15,980	14,833	14,684	14,618	14,685	15,023	
A/P checks issued	9,560	9,054	8,697	8,859	7,879	7,634	7,484	7,460	7,313	9,625
Fire:										
Field incidents dispatched	3,459	3,889	3,552	3,896	4,590	4,734	4,092	4,123	4,282	4,282
Library:										
Items used/checked out	337,018	395,000	397,428	257,195	327,961	231,384	259,986	262,929	411,234	411,234
Parks & Community Services:										
Facility Drop In Totals	1,524	1,824	2,671	1,386	1,315	919	848	857	743	588
Police:										
Moving and Parking Citations	15,926	14,854	15,807	16,709	10,599	12,161	11,204	9,876	10,524	11,105
Service Calls Dispatch	61,745	81,281	81,303	61,643	57,651	62,047	62,126	61,239	65,288	69,668
URC Crime Rate (# crimes/1,000 population, calendar years)	46	52	43	42	32	32	27	25	39	40
Wastewater:										
Annual volume of septage treated (in million gallons)	4.90	7.11	7.17	7.45	7.12	6.65	6.98	7.70	7.81	3.39
Water:										
Water production (acre feet)	8,481	8,634	8,806	8,834	7,300	7,758	7,761	8,133	7,163	6,597
Solid Waste:										
Refuse handled (tons)	39,334	36,539	31,484	35,179	32,936	32,812	32,995	32,607	40,204	41,389
Recycled material (tons)	5,560	5,913	6,016	6,023	4,006	6,258	5,847	6,041	4,946	7,466

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

Function	<u>2007</u>	<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>
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	18	19	19	18	18	18	18	18	17	17
Patrol motorcycles	2	2	2	6	6	6	6	6	4	5
Library:										
Buildings	2	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	24	21	21	21	21	21	21	21	26	26
Acreage of parks	85.0	62.5	85.0	85.0	85.0	85.0	85.0	85.0	143.0	143.0
Community Centers	6	6	6	6	6	6	6	6	5	5
Public Works:										
Miles of streets	96	96	96	96	96	96	96	96	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*	16.5	16.5	16.5	16.5	16.5	12.1	12.1	12.1	12.1	12.1
*(gallons per day in millions)										
Water:										
Maximum pumping capacity*	19.6	18.7	18.7	18.7	18.7	18.7	18.7	18.7	19.1	19.1
Average consumption*	7.0	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.1	5.9
*(gallons per day in millions)										
Solid Waste:										
Collection trucks	20	20	20	20	20	19	16	16	16	19

Source: City of Watsonville departments

This Page Left Intentionally Blank

