

**CITY OF WATSONVILLE
MEASURE G**

FINANCIAL STATEMENTS
June 30, 2016

CITY OF WATSONVILLE
MEASURE G
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Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

City Council
City of Watsonville
Watsonville, California

We have audited the accompanying financial statements of the Measure G Fund of the City of Watsonville, as of and for the fiscal year ended June 30, 2016, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure G Fund of the City of Watsonville as of June 30, 2016, the changes in financial position thereof for the fiscal year then ended, and the budgetary comparison for Measure G for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure G Fund and do not purport to, and do not, present fairly the financial position of the City of Watsonville as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Moss, Levy & Hartzheim LLP

Santa Maria, California
January 30, 2017

CITY OF WATSONVILLE
MEASURE G
BALANCE SHEET
 June 30, 2016

ASSETS

Cash and investments	\$ 2,009,288
Accounts receivable	685,338
Due from other governments	<u>65,689</u>
 Total current assets	 <u><u>\$ 2,760,315</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 124,403
Accrued liabilities	47,700
Unearned revenue	<u>65,689</u>
 Total liabilities	 <u>237,792</u>

Fund Balance:

Restricted for police services	1,365,565
Restricted for fire services	<u>1,156,958</u>
 Total fund balance	 <u>2,522,523</u>
 Total liabilities and fund balance	 <u><u>\$ 2,760,315</u></u>

See notes to financial statements

CITY OF WATSONVILLE

MEASURE G

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2016

Revenues

Sales tax - Fire	\$ 1,462,863
Sales tax - Police	2,194,293
Intergovernmental- Police	145,678
Interest- Fire	3,583
Interest- Police	5,374
Other revenue- Fire	<u>3,000</u>
Total revenues	<u>3,814,791</u>

Expenditures

Fire	938,855
Police	<u>1,601,908</u>
Total expenditures	<u>2,540,763</u>

Excess (deficiency) of revenues over expenditures 1,274,028

Fund balance at beginning of fiscal year 1,248,495

Fund balance at end of fiscal year \$ 2,522,523

CITY OF WATSONVILLE**MEASURE G****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sales tax - Fire	\$ 1,120,000	\$ 1,462,863	\$ 342,863
Sales tax - Police	1,730,400	2,194,293	463,893
Intergovernmental- Police	125,000	145,678	20,678
Interest- Fire	1,200	3,583	2,383
Interest- Police	1,200	5,374	4,174
Other revenue- Fire		3,000	3,000
	<u>2,977,800</u>	<u>3,814,791</u>	<u>836,991</u>
Expenditures			
Fire			
Salaries and wages	487,019	232,984	254,035
Operations	271,093	265,810	5,283
Capital outlay	193,004	440,061	(247,057)
Total fire	<u>951,116</u>	<u>938,855</u>	<u>12,261</u>
Police			
Salaries and wages	605,479	553,932	51,547
Operations	739,419	493,276	246,143
Capital outlay	837,645	554,700	282,945
Total police	<u>2,182,543</u>	<u>1,601,908</u>	<u>580,635</u>
Total expenditures	<u>3,133,659</u>	<u>2,540,763</u>	<u>592,896</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (155,859)</u>	1,274,028	<u>\$ 1,429,887</u>
Fund balance at beginning of fiscal year		<u>1,248,495</u>	
Fund balance at end of fiscal year		<u>\$ 2,522,523</u>	

See notes to financial statements

CITY OF WATSONVILLE
MEASURE G FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In the June 3, 2014 election, City of Watsonville (City) voters approved Measure G, establishing a temporary half-cent transaction sales and use tax. The Measure G Fund (Fund) was established to accumulate revenues transmitted by the State Board of Equalization (BOE), the agency responsible for administering and collecting the transactions and use taxes for the City, and apportion them to essential services outlined within the approved expenditure plan.

The financial statements presented only the activity of the Measure G Fund, and are not intended to present the financial position and changes in financial position of the City of Watsonville, in conformity with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

The Measure G Fund of the City is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

C. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2016, consist of the following:

Pooled cash and investments with the City of Watsonville	<u>\$ 2,009,288</u>
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Please refer to the notes of the City's June 30, 2016 Comprehensive Annual Financial Report regarding cash and investments for additional detail.

SUPPLEMENTARY INFORMATION SECTION

**INDEPENDENT AUDITORS' REPORT ON
MEASURE G COMPLIANCE**

City Council
City of Watsonville

We have audited the financial statements of the City of Watsonville Measure G Fund's (the City) compliance with the types of compliance requirements described in City Ordinance No. 1301-14, published by the City Council of the City of Watsonville applicable for the fiscal year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Ordinance No. 1301-14.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the compliance with applicable statutes, rules and regulations of City Ordinance No. 1301-14 Section. 3-6.1102 Program Restrictions. Section 3-6.1102 requires that an independent auditor shall perform at least the following tasks: (a) test expenditures to ensure Measure G revenue was being spent on hiring more police officers, helping improve police emergency response times, increase neighborhood patrols, maintain anti-gang and youth violence prevention, intervention and suppression efforts, including the Caminos and Police Activities League programs, upgrade equipment and technology to help solve crimes, catch criminals and fight gangs, expand programs to identify and shutdown gang houses, hire more firefighters to ensure enough are on duty, maintain fire and paramedic emergency response times, and replace inadequate and outdated life-saving equipment, (b) ensure that the city has created a Measure G fund with two separate divisions for Police and Fire into which new monies was deposited in the proportion of 60% to Police and 40% to Fire, (c) ensure that the City maintains a maintenance of effort from General Fund monies of at least the fiscal year 2013-2014 adopted General Fund budgeted amounts for Police and Fire operations, (d) ensure that no more than 2% of the annual budgeted revenues were spent on administrative overhead for accounting, payroll, and human resources, (e) ensure that the City has established a contingency fund that holds no less than 10% of annual budgeted revenues. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and City Ordinance No. 1301-14. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state laws and regulations applicable to the City occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Compliance with Ordinance No. 1301-14

In our opinion, the funds allocated to and received by the City of Watsonville's Measure G Fund, complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements of Ordinance No. 1301-14 for the fiscal year ended June 30, 2016.

This report is intended solely for the information and use of City Council, Citizen Oversight Committee, management of the City of Watsonville and for filing with the appropriate regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Remy & Halverson LLP

Santa Maria, California
January 30, 2017