

COUNTY OF SANTA CRUZ

AUDITOR-CONTROLLER'S OFFICE

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December 19, 2001

The Honorable Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Members of the Board and Fellow Citizens:

The Comprehensive Annual Financial Report of the County of Santa Cruz for the fiscal year ended June 30, 2001, is hereby submitted, in accordance with the statutes of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activity have been included. These statements have been audited by the independent auditors, Vargas and Company, CPAs, who have rendered an unqualified opinion thereon. Their report is replicated on page 3.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the County's organizational chart and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, are included in the single audit report, which

is issued as a separate document. This report includes all funds and account groups of the County. The County provides the full range of services contemplated by statute or ordinance. These services include public protection, public ways and facilities, health and sanitation, public assistance, recreation and culture, education, and general government. In addition, various utility, maintenance, redevelopment, and capital acquisition entities are included as part of the reporting entity based on financial accountability. School districts and autonomous special districts have not met the established criteria for inclusion in the reporting entity, and are therefore reported under the category of fiduciary fund types.

Santa Cruz County was established by an act of the State Legislature in 1850 as one of the original 27 counties of the State of California. The County is a general law county and is governed by a five-member Board of Supervisors who are elected by district to serve alternating four year terms. The Board of Supervisors uses the Appointed County Administrative Officer (Chief Executive) organizational structure to carry-out its policies as set forth by County Ordinance. The Assessor, Auditor-Controller, County Clerk/Treasurer Tax Collector, District Attorney and Sheriff are elected officials while all other departments are headed by appointed officials. The Superior and Municipal Courts, which are only financed in part by the County budget, are headed by ten elected judges and are now a State Agency rather than a County Department.

As required by County Ordinance or by State or Federal law, the County's principal functions include seven major areas: general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. In the public assistance and health areas, the State and Federal governments mandate certain minimum levels of service.

Santa Cruz is the second smallest county in California in terms of land mass and the 23rd of 58 in terms of population. The County is located in the Central Coast of California adjacent to the economic prosperity of California's silicon valley. Santa Cruz County is surrounded by San Mateo County to the north, Santa Clara County to the east, San Benito and Monterey Counties to the South and the newly created Monterey Bay National Marine Sanctuary to the West.

ECONOMIC CONDITIONS AND OUTLOOK

California counties are political subdivisions of the State of California and are financially dependent. The principal source of financial resources is derived from both State and Federal government programs making up about 58 percent of Santa Cruz County's revenues.

The County's financial position ended better than the prior fiscal year which has resulted in an A bond rating. Meanwhile, the general economy, with exceptions for automobile sales and recording fees due to home mortgage refinancing appears by most accounts headed for recession. Due to these changes in circumstance, the County reduced its revenue estimates for sales taxes, transient occupancy tax, deed transfer tax, and interest earnings from the past fiscal year in the 2001-2002 budget. In addition to the downturn in the general economy, a ballot measure has qualified for the March 5, 2002 primary election asking the voters to repeal the Utility Users Tax. If the measure passes, the County would need to make budgetary changes to make up for about \$9 million of lost on-going general purpose revenues. Beyond these fiscal issues, the State of California is projecting a \$12 billion fiscal crisis and is considering mid-year reductions of between \$2 and \$3 billion. It seems inconceivable that the State would not look to sharing its fiscal problems with counties, cities, and local agencies.

The County has set aside \$8.9 million specifically for fiscal uncertainty. Of that amount, \$2.1 million was set aside in anticipation of reductions in the Federally Qualified Health Program. It is estimated that about \$500,000 will be used during this fiscal year and we will likely experience less Federal participation. It is

unrealistic to assume that these funds can replace the on-going loss of the Utility Users Tax since they represent one-time sources of financial resources.

The County has a very strong record of dealing with adverse conditions and will manage itself within its available financial resources. The County has negotiated labor agreements with its different bargaining units until October 2002.

MAJOR INITIATIVES

During the past fiscal year, the following major initiatives included:

- A General Fund contribution of \$7 million to the Road Fund to improve the county road system. The 2001-2002 budget provides \$5 million to continue this effort.
 - Created a new Department for Family Support Services. This department was formerly a division of the District Attorney's Office.
 - A program to complete a number of important deferred maintenance projects at different county facilities.
 - PARKS - Opened Anna Jean Cummings Park with significant recreational assets available (soccer fields), completed construction of public access facilities at Scott Creek Beach, new ballfields at Pinto Lake and the Polo Grounds parks, initiated a master planning process for Highlands, Pinto Lake and Moran Lake County Parks, continued the summer recreation funding program, which provides recreational opportunities for area youth, and initiated a mobile recreation program to address the needs of youth who do not have easy access to the County's parks system, and expanded programs at Simpkins Family Swim Center.
 - PUBLIC WORKS - Completed the first year of the Pavement Management Program of a two year program (\$10 million) to improve the County's aging road infrastructure, and continued improvements to the County's drainage and sanitation management infrastructure.
 - JUSTICE - With remodeling of Juvenile Hall, Probation established a family resource center system to provide community and neighborhood interventions and services to area youth, continued operation of the Sheriff's four community service centers located in Felton, Live Oak, Aptos, and Freedom with recruitment of community volunteers to assist the Sheriff address graffiti, juvenile issues, neighborhood disputes and abandoned vehicles, and continued the successful School Resource Officer program that places deputies in public schools.
- District Attorney: Completed the transfer of the Family Support Program to the new Department of Child Support Services, pursuant to state law, continued study of a new case management system, continued support of the work of the Domestic Violence Commission, and continued support of consumer protection programs.
- GENERAL GOVERNMENT - Successful implementation of the fifth year of the State/County property tax administration loan program projects which has enabled the Assessor, Treasurer-Tax Collector, and Auditor-Controller to improve services to the public by instituting new electronic document management and imaging technologies. Personnel

instituted an on-line application process to make it easier for residents to apply for jobs on-line, and developed a targeted hiring approach to address difficult to fill professional positions such as peace officers, technologists, planners, and health care workers.

- **HEALTH AND HUMAN RESOURCES** - Developed new transitional housing project for teens who are leaving foster care in collaboration with the Human Resources Agency (HRA), expanded public health effort to address Hepatitis C and tobacco education, HRA implemented the first year of the new Workforce Investment Act initiatives, which consolidates more than 60 federal training programs for adult and youth employment training and adult education and training through a customer focused one-stop Career Center system, and coordinated work of the Health Care Outreach Coalition, which provides a streamlined approach to access to health care insurance to individuals, particularly children, through a collaborative effort of nine community health agencies and the United Way, Dominican Hospital, Health Start, the Central Coast Alliance for Health, and the County Office of Education.
- **LAND USE** - The Planning Department opened a new community service center in Aptos to provide comprehensive planning and permit processing services to mid-county, and extended the hours of the Felton Permit Center's operations, and provided improved on-line access to various planning and permit processes.

The remainder of this section discusses financial activities for the fiscal year 2000-01.

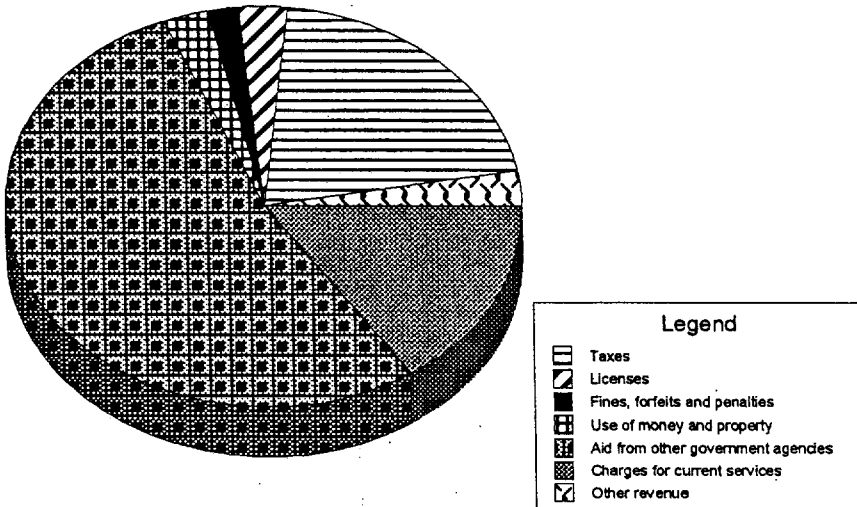
General Government Functions - The general fund is used to account for all the activities of a general nature including administration, legislation, public protection, health and welfare, parks and recreation.

The following schedule presents a summary of general fund revenues for the year ended June 30, 2001, and the amount and increases and decreases in relation to the prior year.

REVENUES

	<u>2000-01</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues:			
Taxes	\$ 50,423,411	\$ 5,368,935	11.92%
Licenses, permits, franchises	7,412,751	27,609	0.37%
Fines, forfeits and penalties	4,167,204	(366,034)	(8.07)%
Use of money and property	6,930,581	184,906	2.74%
Aid from other government agencies	147,338,659	20,109,346	15.81%
Charges for current services	32,545,004	(2,923,961)	(8.24)%
Other revenue	<u>6,682,342</u>	<u>2,144,527</u>	<u>47.26%</u>
Total revenues	\$ <u>255,499,952</u>	\$ <u>24,545,328</u>	<u>10.63%</u>

General Fund Revenues by Source



General fund revenues for 2000-01 totaled \$255,499,952 a 10.63% increase from the previous year. The most significant revenue changes resulted from the following:

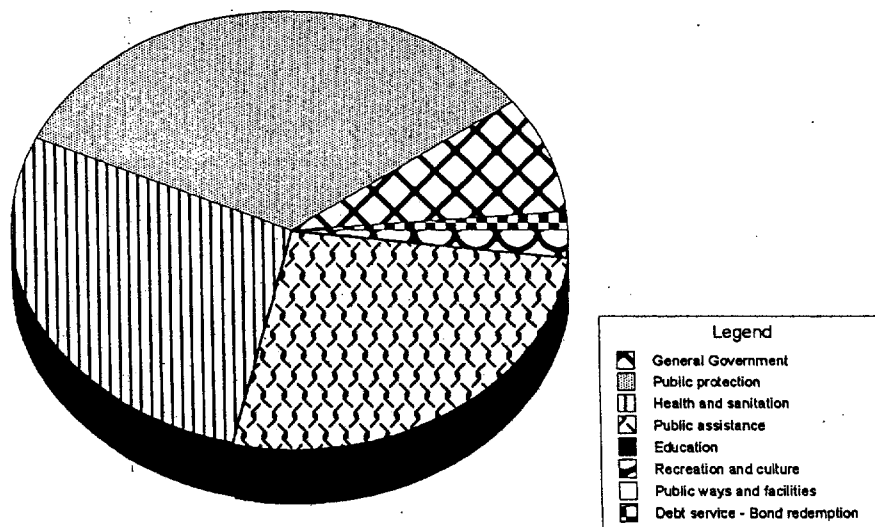
- Increase in Taxes due to \$1.9 million increase in redemption penalties; \$0.5 million increase in sales taxes; \$0.4 million in penalties, and \$0.2 million increase in supplemental property taxes.
- Increase in Aid from other governmental agencies due to \$3 million increase in Mental Health revenues and \$8 million increase in State and Federal Public Assistance.
- Increase in Other revenue due to settlement of 1989 Earthquake audit.

The following schedule summarizes general fund expenditures for 2000-01, and increases and decreases from 1999-00.

EXPENDITURES

	<u>2000-01</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Expenditures:			
Current:			
General government	\$ 18,255,296	\$ 1,703,434	10.29%
Public protection	76,631,559	5,590,643	7.87%
Health and sanitation	67,561,891	6,679,490	10.97%
Public assistance	77,441,892	15,659,561	25.35%
Education	110,510	18,473	20.07%
Recreation and culture	5,337,630	584,978	12.31%
Public ways and facilities	150,418	11,257	8.09%
Debt service - Bond redemption	<u>654,927</u>	<u>(1,443,262)</u>	<u>(68.79)%</u>
Total expenditures	<u>\$ 246,144,123</u>	<u>\$ 28,804,574</u>	<u>13.25%</u>

General Fund Expenditures by Function



Total general fund expenditures for 2000-01 totaled \$246,144,123, a 13.25% increase from 1999-00. The most significant increases and decreases in expenditures occurred in the following areas:

- Increase in General Government expenditures due to \$7 million in Plant expenditures.
- Increase in Public protection due to increase in road expenditures and Sheriff/Detention staffing.
- Increase in Public assistance due to increased mental health, and state and federal public assistance program expenditures.
- Decrease in debt service due to lower interest expense on the tax and revenue anticipation notes.

General Fund Balance - The unreserved, undesignated fund balance of the General Fund decreased by \$5,148,305 as the net result of operations. The fund balance available of \$26,220,229 represents financial resources available at June 30, 2001 to finance expenditures for the fiscal year 2001-2002.

Proprietary Operations - Proprietary funds are used to account for internal service and enterprise activities.

Internal service funds include the County's motor vehicle fleet, information services and public works. The intent is for these functions to operate on a cost recovery basis and provide funds for the replacement of assets. Any operating deficits will be recovered through increased charges in subsequent years.

Enterprise funds consist principally of water and sanitation districts under the Board of Supervisors. These are funded by user charges and any deficiencies as a result of operations are made up through rate increases in the following year.

Fiduciary Operations - The County maintains a significant number of funds to carry-out its fiduciary responsibilities. These include funds for school districts, autonomous special districts, payroll and taxes.

Debt Administration - The County has entered into lease-purchase agreements with the Santa Cruz County Public Financing Authority. These lease-purchase acquisitions have been financed by Certificates of Participation issued which have varying maturity dates through the year 2026. These issues have been rated BBA1 and A1 by Moody's. While the County's obligation is a lease-purchase, as stated, the total amount of the Certificates obligation of \$54.0 million has been included in the County's long-term debt for reporting purposes.

Cash Management - Cash is pooled for the purpose of increasing interest income through investment activities. Investments are stated at cost plus accrued interest, which approximates market value. Investments consist of United States Treasury bills, United States Treasury notes, bankers' acceptances, commercial paper, negotiable and time certificates of deposit, and other investments authorized by Government Code Section 53635. At June 30, 2001, cash and investments totaled approximately \$576.5 million.

During the fiscal year, \$29 million was earned from the investment of all idle funds on deposit in the treasury. This was an increase from the prior year which totaled \$24.5 million.

Risk Management - The County is self-insured for liability, workers compensation, and some employee dental care. The County purchases insurance for other risks including liability and property, long term disability, health, and dental for public safety employees. Resources are accumulated in the Self-Insurance Fund to meet potential future losses. The County's Risk Management Division implements various risk control techniques, and loss prevention and reduction programs, including employee training and education, as part of the comprehensive risk management plan.

OTHER INFORMATION

Independent Audit - State statutes require an annual audit by independent Certified Public Accountants. The firm of Vargas and Company, CPAs was selected to audit the financial statements of the County's various funds and account groups, and has issued an unqualified opinion thereon. In addition to meeting the requirements of state law, the audit was also designed to comply with the federal Single Audit Act of 1984, and OMB Circular A-133. The auditors' report on the general purpose financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separate Single Audit Report.

Awards - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Santa Cruz for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

The California State Controller presented an Award for Achieving Excellence in Financial Reporting for the fiscal year ended June 30, 2000. This award is presented for achieving the highest quality in California government accounting and financial reporting.

AUDITOR-CONTROLLER ACKNOWLEDGMENTS

I wish to express my appreciation to my Accounting and Audit Divisions, the County departments which participated, and the independent auditors, Vargas and Company, CPAs, for their contributions, assistance and guidance in the preparation of this report.

Respectfully submitted,



GARY A. KNUTSON
Auditor-Controller