

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Santa Cruz (the “County”) was established by an act of the State Legislature of California in 1850 and is governed by a five-member elected Board of Supervisors (the “Board”). The Board is responsible for the legislative and executive control of the County. The County provides various services on a countywide basis including law and justice, education, detention, social, health, hospital, fire protection, road construction, road maintenance, transportation, park and recreation facilities, elections and records, communications, planning, zoning, and tax collection.

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The County has elected to apply all applicable FASB pronouncements issued on or before that date to its proprietary funds. The more significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management’s Discussion & Analysis (MD&A) section providing an analysis of the County’s overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the County’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the basic financial statements). The County has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure (assets acquired prior to fiscal year ending June 1980) in the fiscal year ending June 30, 2006.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**A. Reporting Entity**

These financial statements present the County (the primary government) and its component unit, the Santa Cruz County Sanitation District. As defined by GASBS No. 14, component units are legally separate entities that are included in the County's reporting entity because of the significance of their operating or financial relationships with the County.

**Blended Component Units.** The following entities serve citizens of the government and provide for the construction and maintenance of County parks and recreation, police protection, mosquito abatement, fire protection, street lighting, roads, flood control, sewer, and refuse disposal districts. They are reported as if they were part of the primary government because they are governed by a board comprised of the County Board of Supervisors. The Board of Supervisors establishes the district work program and adopts the budget. Administrative services are provided by various departments of the County of Santa Cruz.

The following funds are grouped by the Special Revenue Fund under which they are reported in the Combining Statements:

Library  
County Fire Protection  
Off Highway, Road and Transportation  
Public Financing Authority  
Fish and Game  
Private Revitalization of Downtown  
Redevelopment Agency  
Park Dedication  
Health Services Agency Capital Outlay  
Santa Cruz County Flood Control and Water Conservation Zone 7

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Districts Governed by the Board of Supervisors

*Public Protection*

Aptos Seascape County Service Area (CSA) 3  
County Fire Protection CSA 48  
Police Protection CSA 38  
Pajaro Storm Drain Maintenance District  
Pajaro Dunes Fire Protection CSA 4  
Pajaro Dunes Station Maintenance Fund  
Pajaro Dunes Station Assessment District Reserve  
Santa Cruz County Flood Control and Water Conservation Zone 4  
Santa Cruz County Flood Control and Water Conservation Zone 5  
Santa Cruz County Flood Control and Water Conservation Zone 6  
Santa Cruz County Flood Control and Water Conservation Zone 8  
Santa Cruz County Flood Control and Water Conservation Zone - General

*Health and Sanitation*

Pasatiempo Rolling Woods Sewer District

*Recreation and Culture*

Streetscape CSA 9E  
Parks and Recreation District CSA 11  
CSA 11 Zone E  
CSA 11L Lompico Community

*Public Ways and Facilities*

County Highway Lighting CSA 9	Redwood Drive CSA 33
County Highway Residential Lighting CSA 9 Zone A	Larsen Road CSA 34
School Crossing Guard CSA 9 Zone B	Country Estates CSA 35
County Road Maintenance CSA 9D Zone 1	Forest Glen CSA 36
County Road Maintenance CSA 9D Zone 2	Roberts Road CSA 37
CSA 9D Zone 3	Reed Street CSA 39
Hutchinson Road CSA 13	Ralston Way CSA 40
Oakflat Road CSA 13A	Loma Prieta CSA 41
Huckleberry Woods Road CSA 15	Sunlit Lane CSA 42
Robak Drive CSA 16	Bonita-Encino Drive CSA 43
Empire Acres CSA 17	Sunbeam Woods CSA 44
Whitehouse Canyon CSA 18	Pinecrest CSA 46
Westdale Drive CSA 21	Braemoor CSA 47

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Public Ways and Facilities - Continued*

Kelly Hill CSA 22	Vineyard CSA 50
Old Ranch Road CSA 23	Hopkins Gulch CSA 51
Pineridge CSA 24	Upper Pleasant Valley CSA 52
Viewpoint Road CSA 25	Mosquito Abatement CSA 53
Hidden Valley CSA 26	Riverdale Park Road CSA 55
Lomond Terrace CSA 28	Felton Grove CSA 56
Glenwood Acres CSA 30	Mansfield Street Assessment Dist
View Circle CSA 32	Underground Utilities #4-41 <sup>st</sup> Ave

*Geologic Hazard Abatement Districts (GHAD)*

Corralitos GHAD  
 Mid-County GHAD  
 Heartwood GHAD

The following funds are reported as Enterprise Funds (Sewer and Refuse Disposal Districts):

Boulder Creek CSA 7	County Disposal Sites CSA
Rolling Woods CSA 10	Place De Mer CSA 2
Septic Tank Maintenance CSA 12	Sand Dollar Beach CSA 5
Freedom County Sanitation District	Trestle Beach CSA 20
Davenport County Sanitation District	Summit West CSA 54

Santa Cruz County Flood Control and Water Conservation District – Zone 7, a Special Revenue Fund, was established to provide funding for the local share of proposed Army Corps of Engineers flood control projects on the Pajaro River, Salsipuedes Creek, and Corralitos Creek. The District is governed by a seven-member board consisting of the County Board of Supervisors and two additional members, one appointed by the City of Watsonville and another appointed by the Pajaro Valley Water Agency. Administrative services are provided by the County of Santa Cruz, Department of Public Works, 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

The Redevelopment Agency, a Special Revenue Fund, was established by the County Board of Supervisors for the purpose of financing improvement projects in the Live Oak/Soquel areas. The Agency is governed by the Board of Supervisors. The Board of Supervisors establishes the Agency work program and adopts the budget. Administrative services are provided by the County of Santa Cruz, Redevelopment Agency, and complete financial statements may be obtained from 701 Ocean Street, Room 510, Santa Cruz, CA 95060.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Public Financing Authority, a Special Revenue Fund, facilitates financing for the County and Redevelopment Agency. The Authority is established and governed by the Board of Supervisors; it is not legally required to adopt a budget. Administrative services are provided by the County of Santa Cruz, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

**Discretely Presented Component Unit.** The Santa Cruz County Sanitation District (the "District") is governed by a three-member board appointed by the County's Board of Supervisors. It is managed by the County Department of Public Works under the direction of the District Board of Directors. The District as a component unit is presented separately from the primary government in the government-wide financial statements. Administrative services are provided by the County of Santa Cruz, Department of Public Works, and complete financial statements may be obtained from 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

**B. Basis of Presentation**

***Government-wide Financial Statements***

The Statement of Net Assets and Statement of Activities display information about the primary government, the County, and its component unit. This government-wide focus is more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the County and between the county and its component unit.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

The County prepares a County-wide cost allocation plan in accordance with Federal OMB Circular A-87. Using this directive, all central support costs are allocated to County funds and departments using a step-down method so that the true cost of operations can be included in determining the rates to be charged to users.

***Fund Financial Statements***

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column in the proprietary fund financial statements. The various funds are reported by generic classification within the financial statements.

The County reports the following major governmental funds:

- The **General Fund** is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other specialized fund.
- The **Redevelopment Agency fund** accounts for a legal entity separate from the County, although the entity is reported as a component unit. The Agency was established by law to use tax increment financing for the purpose of curing blight in the Live Oak/Soquel improvement project areas.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The County reports the following major enterprise fund:

- The **County Disposal Sites fund** accounts for the operation and expansion of the County's landfills and implementation of state mandated environmental health programs. User fees, service area charges and revenues from the waste recovery and recycling projects finance the fund.

Additionally, the County reports the following fund types:

- **Internal Service funds** account for central duplicating, information services, public works, fleet management, and self-insurance services provided to other departments, or to other governments, on a cost reimbursement basis.
- **Investment Trust funds** account for the assets of legally separate entities who deposit cash with the County Treasurer. These include other special districts governed by local boards, school districts, city trust funds, and state and federal trust funds. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies.
- **Agency funds** are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. These funds account for assets held by the County in an agency capacity for individuals or other government units.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund balance is used as the measure of available spendable financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means having been earned, and collectible within the current period. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

**D. Financial Statement Amounts**

**Cash and Cash Equivalents**

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent with original maturities of three months or less from the date of acquisition.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments**

Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments" was implemented during 1997. In accordance with this statement, investments held at June 30, 2002 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

**Inventories**

Inventories in the general fund consist of expendable supplies held for the County's use and are carried at cost using the first-in, first-out method.

Inventories in the internal service funds, enterprise funds, and the general fund are stated at cost. Cost is determined by the average cost method.

The costs of inventory items are recorded as expenditures in the governmental fund types and expenses in the proprietary fund types when used.

**Capital Assets and Depreciation**

Capital assets purchased or acquired with an original cost of \$1,500 (for equipment and vehicles) and \$25,000 (for buildings and structures) or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

GASBS No. 34 requires the County to report and depreciate new infrastructure assets effective with the beginning of the 2001-02 fiscal year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the County. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending 2006. The County has elected to implement the general provisions of GASBS No. 34 in the current year and hope to implement the retroactive infrastructure provisions (under the modified approach) in the fiscal year ending June 30, 2006.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

**Long-term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of tax allocation bonds, certificates of participation, lease revenue refunding bonds, local assessment bonds, notes payable, compensated absences, and capital leases.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Compensated Absences**

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee, including salary-related payments such as employer's share of social security and medicare taxes. These amounts are estimated to be used in subsequent fiscal years for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**Interfund Activity**

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**Revenues**

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**Expenditures**

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Equity Classifications**

*Government-wide Financial Statements*

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Financial Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2002, reservations of fund balance are described below:

- Encumbrances – to reflect the outstanding contractual obligations for which goods and services have not been received.
- Imprest cash/inventories – to reflect the portion of assets which do not represent available spendable resources.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- Advances and loans – to reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.
- Debt service – to reflect the funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.
- Capital asset acquisition – to reflect the amount set aside for the purchase of capital assets from the issuance of loans by the public financing authority.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations were reported in the following funds:

- General fund – to reflect management’s intent to expend certain funds for the health services facility, road, emergency reserve, federally qualified health program, working capital and medicruz risk reserve.
- Special revenue – to reflect management’s intent to expend certain funds to support the County’s redevelopment agency projects and debt service.
- Capital projects – to reflect management’s intent to expend certain funds solely for planned capital projects.

**E. Property Tax Levy, Collection and Maximum Rates**

The State of California Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. These general property tax rates do not apply to taxes levied to pay the interest and redemption charges on any indebtedness incurred prior to June 6, 1978, or subsequently approved by the voters. Supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. The State Legislature has determined the method of distribution among the counties, cities, school districts, and other districts of receipts from the 1% property tax levy.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The County assesses properties, bills for, and collects taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Levy dates	July 1	July 1
Lien dates	January 1	January 1
Due dates	50% on November 1 50% on February 1	August 1
Delinquent after	December 10 (for Nov) April 10 (for Feb)	August 31
Tax rate per \$100 full cash value	\$1	\$1
Late penalty	10%	10%
Delinquent interest	1 – ½% per month	1 – ½% per month

These taxes are secured by liens on the property being taxed. The Board of Supervisors annually sets the rates of the County and district taxes and levies State, County, and district taxes as provided by law. The term “secured” refers to taxes on land and buildings, while “unsecured” refers to taxes on personal property other than land and buildings. During fiscal year 1993-94, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County allocates to all taxing jurisdictions under the County, 100% of the secured property taxes billed, even if it has not yet been collected. In return, the County retains the subsequent delinquent payments and associated penalties and interest. The penalties and interest are accumulated in a Tax Losses Reserve Agency Fund. The County may transfer to the General Fund any excess over the reserve required by the Board of Supervisors and the State.

Delinquent property taxes receivable are shown on the balance sheet of the property tax trust funds. Under California law, real property is not subject to sale for reasons of delinquent taxes until the end of the fifth year of delinquency, and the taxpayer may arrange to repay the delinquent taxes over a five year period any time within the five year period, although the property is subject to a cash redemption up to the time of the sale.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by ¶ 4705 of the State of California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Under the alternate apportionment method, specified amounts of penalties and interest collected on delinquent secured taxes are held in trust in the secured tax losses reserve fund to fund specified tax redemption short falls. This reserve is used to fund the apportionment of secured taxes.

**F. Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles 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**

The County maintains a cash and investment pool that is available for use by all funds with various financial institutions and a safekeeping agent, Bank of the West. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and investments". In addition, Special Revenue Public Financing Authority, Special Revenue Redevelopment Agency, Debt Service Redevelopment Agency, Santa Cruz Criminal Justice Council Agency Funds, Place de Mer Agency Funds, Enterprise County Disposal CSA 9, Agency Welfare Advances, Agency Substitute Payee Welfare, Agency Deferred Compensation, Santa Cruz County Schools, and Santa Cruz County Sanitation District (a component unit) hold deposits or investment accounts in addition to the cash and investment pool.

Statutes authorize the County to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's investment pool.

**Investment Policy**

Pooled Investments – Funds available from all sources, when permitted, may be pooled in order to achieve greater investment potential. All earnings from pooled fund investments shall be deposited in the Interest Trust Fund. Each calendar month, the Fund shall be charged and each participant in the pooled investments shall be credited in proportion to their investment, based on an average daily balance.

Authorized Investments – Investments shall be limited to the following listed investment instruments and shall further be limited to the maximum percentage of total accountability, valued at cost:

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**Year Ended June 30, 2002**

**NOTE 2. CASH AND INVESTMENTS - Continued**

<u>Instrument</u>	<u>Percentage Limits on Investments</u>	<u>Limitations</u>
Repurchase Agreements	100%	Collateralized by Government Securities, Bankers' Acceptances, Commercial Paper, or Negotiable Certificates of Deposits. Collateral will be included in percentage limitations under authorized investments. The market value plus accrued interest of the collateral must equal or exceed 102% of the repurchase cost at all times. Unless approved by the Treasurer, all collateral will be delivered to a safekeeping account.
U.S. Treasury Bills	100%	None.
U.S. Treasury Notes	100%	None.
U.S. Treasury Bonds	100%	None.
Municipal Bonds	100%	None.
Other Federal Securities	100%	None.
Bankers' Acceptances	40%	Top 100 banks of the world or top 20 banks of the United States with 270 days maximum maturity.
Commercial Paper	15%	Rating A or better, \$500,000,000 assets plus 180 days maximum maturity.
Negotiable Certificates of Deposit	30%	Top 20 banks National or State Chartered banks or State or Federal Savings Associations or top 10 State licensed foreign banks, 5 years maximum maturity.
Time Certificates of Deposit	100%	Bank or Home Loan Association, 100% government collateral, 1 ½ years maximum maturity.
Medium-Term Notes	30%	Notes must be rated "A", or its equivalent, or better with a 5-year maximum maturity.
State Local Agency Investment Fund (LAIF)		\$20,000,000 maximum allowed.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
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**NOTE 2. CASH AND INVESTMENTS - Continued**

**Cash and Investments**

A summary of amounts disclosed as cash and investments and restricted cash as of June 30, 2002 are as follows:

<u>Description</u>	<u>Cash and Investments</u>	<u>Restricted Cash</u>	<u>Total</u>
Primary Government:			
Cash on hand or imprest cash	\$ 49,577	\$ -	\$ 49,577
Deposits in treasury pool	45,786,789	-	45,786,789
Deposits in other banks	152,555	-	152,555
Investments in treasury pool	408,504,687	16,560,000	425,064,687
Investments in other banks	43,416,280	25,582,994	68,999,274
Restricted cash in treasury pool:			
Rolling Woods CSA	( 16,819)	16,819	-
Freedom County Sanitation	( 45,212)	45,212	-
Davenport Sanitation	( 28,428)	28,428	-
Disposal Sites	( 3,066,343)	3,066,343	-
Sand Dollar Beach	( 495)	495	-
Total	<u>494,752,591</u>	<u>45,300,291</u>	<u>540,052,882</u>
Component Unit:			
Restricted cash in treasury pool	( 961,104)	961,104	-
Investments in treasury pool	36,888,501	-	36,888,501
Investments in other banks	<u>1,011,595</u>	<u>-</u>	<u>1,011,595</u>
Total	<u>36,938,992</u>	<u>961,104</u>	<u>37,900,096</u>
Total Reporting Entity	<u>\$531,691,583</u>	<u>\$46,261,395</u>	<u>\$577,952,978</u>

The County cash on hand, deposits and investments as of June 30, 2002 consist of:

<u>Description</u>	<u>Treasury Pool</u>	<u>Other Banks</u>	<u>Cash on Hand or Imprest Cash</u>	<u>Total</u>
Primary Government:				
Cash on hand or imprest cash	\$ -	\$ -	\$49,577	\$ 49,577
Deposits	45,786,789	152,555	-	45,939,344
Investments	<u>425,064,687</u>	<u>68,999,274</u>	<u>-</u>	<u>494,063,961</u>
Total	470,851,476	69,151,829	49,577	540,052,882
Component Unit:				
Investments	<u>36,888,501</u>	<u>1,011,595</u>	<u>-</u>	<u>37,900,096</u>
Total Reporting Entity	<u>\$507,739,977</u>	<u>\$70,163,424</u>	<u>\$49,577</u>	<u>\$577,952,978</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 2. CASH AND INVESTMENTS - Continued**

**Deposits**

At June 30, 2002, the balance of the County's deposits was \$45,939,344. Of the bank balance in the treasury pool, \$471,000 was covered by federal depository insurance. The remainder of the deposits are collateralized with securities held by the County or its agent in the County's name. In accordance with the Governmental Accounting Standards Board Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements," the County's deposits are categorized by the level of risk assumed by the County at year end. Category 1 includes deposits insured or collateralized with securities held by the County or its agent in the County's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 includes uncollateralized deposits, which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the County's name. The County had no deposits in Category 2 or 3 as of June 30, 2002.

County deposits in Category 1 at June 30, 2002 are as follows:

<u>Description</u>	<u>Bank</u>	<u>Insured Amount</u>	<u>Total</u>
Primary Government:			
Treasury Pool	Bank of the West	\$400,000	\$45,786,473
Welfare Advances Agency Funds, Unrestricted	Bank of the West	70,000	70,000
Welfare Substitute Payee Agency Funds, Unrestricted	Bank of America	1,000	1,000
Santa Cruz Criminal Justice Council Agency Funds, Unrestricted	Bank of America	-	3,572
Place de Mer Agency Funds, Unrestricted	Bank of America	-	20,648
Enterprise Davenport County Sanitation District, Unrestricted	Bank of America	-	24,440
Enterprise County Disposal CSA 9, Unrestricted	Bank of America	-	33,211
Total County Deposits		<u>\$471,000</u>	<u>\$45,939,344</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 2. CASH AND INVESTMENTS - Continued**

**Investments**

GASB 31 requires governmental external investment pools to report certain investments at fair value in the financial statements and report the change in the fair value of investments in the year in which the change occurred. In compliance with these requirements, the fair value of the County's combined pool is determined annually and is based on current market prices received from the securities custodian except for money market investments and interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less which are carried at amortized cost. The fair value of the participants' position in the pool is the same as the value of the pool shares. The County also participates in the State Local Agency Investment Fund (LAIF), an investment fund sponsored by the State of California. Funds placed in the LAIF are subject to State statute. The fair value of the County's position in the State pool is the same as the value of the pool shares. The County Treasury has provided a fair value dollar factor in the Quarterly Report of Investments which can be used for financial reporting by the pool participants.

The County's investments are categorized below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the County's name.

It is the County's intent to hold investments until maturity, unless earlier liquidation would result in an investment gain. Investments for the Santa Cruz County Sanitation District in the amount of \$36,888,501 are held in the County's treasury pool and are commingled with those funds.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 2. CASH AND INVESTMENTS - Continued**

County investments by category as of June 30, 2002 are follows:

<u>Description</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments in Treasury Pool:			
Negotiable Certificates of Deposit	\$120,418,197	\$120,418,197	\$120,525,654
Repurchase agreements	123,906	123,906	123,906
Other Government Agency Securities	94,862,583	94,862,583	95,116,763
Commercial paper	9,978,417	9,978,417	9,987,000
Medium Term Notes	147,133,991	147,133,991	146,123,670
Restricted Special Revenue Public Financing Authority:			
U.S. Treasury bills and notes	360,739	360,739	360,739
Other government agencies securities	2,749,321	2,749,321	2,749,321
Component Unit - Santa Cruz County Sanitation District:			
U.S. Treasury bills and notes	<u>1,011,595</u>	<u>1,011,595</u>	<u>1,011,595</u>
Totals	<u>\$376,638,749</u>	376,638,749	375,998,648
County Treasury pool Money Market Funds		33,000,000	33,000,000
County Treasury pool investment in State Treasurer's Investment Pool		56,436,094	56,436,094
Special Revenue Redevelopment Agency investment in Bank of America Money Market Funds		25,206,494	25,206,494
Special Revenue Redevelopment Agency investment in State Treasurer's Investment Pool		1,675,427	1,675,427
Special Revenue Redevelopment Agency restricted debt service Money Market Funds		6,747,791	6,747,791
Special Revenue Redevelopment Agency Money Market Funds		12,614,714	12,614,714
Special Revenue Public Financing Authority restricted Money Market Funds		15,725,143	15,725,143
Santa Cruz County Schools Medical Insurance investment in State Treasurer's Investment Pool		3,091,859	3,091,859
Santa Cruz County Schools Self-Insurance investment in State Treasurer's Investment Pool		<u>827,786</u>	<u>827,786</u>
Total Investments – Reporting Entity		<u>\$531,964,057</u>	<u>\$531,323,956</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 3. RECEIVABLES**

Receivables at year-end of the County's major individual funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

<i>Governmental Activities:</i>	General Fund	Redevelop- ment Agency	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Accounts	\$30,331,998	\$500,000	\$3,808,243	\$183,378	\$34,823,619
Interest	35,536	488,589	713,295	-	1,237,420
Taxes	<u>2,866,373</u>	-	-	-	<u>2,866,373</u>
Gross receivables	33,233,907	988,589	4,521,538	183,378	38,927,412
Less: allowance for uncollectibles	<u>1,979,401</u>	-	-	-	<u>1,979,401</u>
Total receivables	<u>\$31,254,506</u>	<u>\$988,589</u>	<u>\$4,521,538</u>	<u>\$183,378</u>	<u>\$36,948,011</u>

<i>Business-type Activities:</i>	County Disposal Sites CSA	Nonmajor Funds	Total Business-type Activities
Accounts	<u>\$502,178</u>	<u>\$58,637</u>	<u>\$560,815</u>
Total receivables	<u>\$502,178</u>	<u>\$58,637</u>	<u>\$560,815</u>

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received or accrued but not yet earned.

At June 30, 2002, the various components of deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<i>Governmental activities:</i>		
General fund:		
Grant drawdowns prior to meeting all eligibility requirements	\$ -	\$17,469,697
Due from governmental agencies	532,188	750,184
Property assessment taxes receivable	-	123,600
Other receivables and advances	<u>-</u>	<u>272,496</u>
Total governmental activities	<u>\$532,188</u>	<u>\$18,615,977</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 4. INTERFUND TRANSACTIONS**

Interfund receivables and payables as of and for the year ended June 30, 2002, by individual fund are summarized as follows:

	Due From <u>Other Fund</u>	Due To <u>Other Fund</u>	Adv To <u>Other Fnds</u>	LT Adv Fr <u>Gen Fnd</u>	Operating <u>Transfers In</u>	Operating <u>Transfers Out</u>
Primary Government						
Governmental Funds						
Major Funds						
General Fund	\$ 1,219,003	\$ 1,997	\$128,000	\$ -	\$ 9,184,210	\$21,575,498
Special Revenue Fund						
Redevelopment Agency	4,786	2,434	-	-	14,099,481	21,979,820
Nonmajor Funds						
Special Revenue Funds						
Public Financing Authority	-	-	-	-	4,566,537	-
Private Revit of Downtown	300,273	-	-	-	41,500	41,500
Park Dedication	-	149,708	-	-	75,255	6,916
In-Home Support Service	-	150,565	-	-	-	-
Dist Gov by BOS						
Recreation and Culture	-	-	-	-	15,241	68,339
Public Ways and Facilities	387	387	-	-	9,184,210	9,184,210
Geologic Hazard Abatement	-	9,901	-	-	-	-
Debt Service Funds						
Redevelopment Agency Bonds	-	-	-	-	7,748,471	-
Local Assessment Bonds	32,267	32,267	-	-	-	-
Capital Project Funds	15,000	15,000	-	-	7,941,378	-
Total Nonmaj Gov Funds	<u>347,927</u>	<u>357,828</u>	<u>-</u>	<u>-</u>	<u>29,572,592</u>	<u>9,300,965</u>
Proprietary Funds						
Nonmajor Funds						
Enterprise Funds						
Boulder Creek CSA	21,850	13,994	-	-	-	-
Rolling Woods CSA	767	-	-	-	-	-
Sand Dollar Beach CSA	-	7,295	-	-	-	-
Total Nonmaj Enterprise Fds	<u>22,617</u>	<u>21,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Internal Service Funds						
Central Duplicating	-	141,276	-	-	-	-
Information Services	1,444,840	-	-	-	-	-
Public Works	213,075	61	-	-	-	-
Service Center	-	71,739	-	-	-	-
Total Internal Service Funds	<u>1,657,915</u>	<u>213,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Funds						
Investment Trust						
Special Distr under Local Board	-	167	-	-	-	-
Agency Funds						
County Departmental	-	1,216,998	-	-	-	-
Payroll	20,943	20,943	-	-	-	-
Property Tax Collection	6,977,697	8,412,469	-	-	-	-
Independent Agencies	1,061	4,087	-	128,000	-	-
Total Fiduciary Funds	<u>6,999,701</u>	<u>9,654,664</u>	<u>-</u>	<u>128,000</u>	<u>-</u>	<u>-</u>
Component Unit	<u>57</u>	<u>718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$10,252,006</u>	<u>\$10,252,006</u>	<u>\$128,000</u>	<u>\$128,000</u>	<u>\$52,856,283</u>	<u>\$52,856,283</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001 (as restated)	Additions	Retirements	Balance June 30, 2002
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 31,780,653	\$ 368,970	\$ 368,970	\$ 31,780,653
Capital assets, being depreciated:				
Buildings and structures	83,304,330	3,004,038	1,690	86,306,678
Equipment	40,869,209	5,406,410	1,895,745	44,379,874
Total capital assets, being depreciated	124,173,539	8,410,448	1,897,435	130,686,552
Less accumulated depreciation for:				
Buildings and structures	31,948,060	2,809,864	-	34,757,924
Equipment	31,908,631	3,663,925	1,369,894	34,202,662
Total accumulated depreciation	63,856,691	6,473,789	1,369,894	68,960,586
Total capital assets, being depreciated, net	60,316,848	1,936,659	527,541	61,725,966
Governmental activities capital assets, net	\$ 92,097,501	\$ 2,305,629	\$ 896,511	\$ 93,506,619
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,858,849	\$ -	\$ -	\$ 1,858,849
Capital assets, being depreciated:				
Buildings and structures	26,293,786	410,138	2,763,665	23,940,259
Equipment	6,021,114	689,742	81,716	6,629,140
Total capital assets, being depreciated	32,314,900	1,099,880	2,845,381	30,569,399
Less accumulated depreciation for:				
Buildings and structures	5,556,098	738,364	-	6,294,462
Equipment	3,340,923	704,112	28,654	4,016,381
Total accumulated depreciation	8,897,021	1,442,476	28,654	10,310,843
Total capital assets, being depreciated, net	23,417,879	( 342,596)	2,816,727	20,258,556
Business-type activities capital assets, net	\$ 25,276,728	(\$ 342,596)	\$ 2,816,727	\$ 22,117,405
<b>Component Unit-Santa Cruz County Sanitation District (SCCSD)</b>				
Capital assets, being depreciated:				
Buildings and structures	\$104,755,041	\$8,427,858	\$2,686,711	\$110,496,188
Equipment	3,500,014	926,807	247,596	4,179,225
Total capital assets, being depreciated	108,255,055	9,354,665	2,934,307	114,675,413
Less accumulated depreciation for:				
Buildings and structures	29,568,534	2,570,304	-	32,138,838
Equipment	2,063,213	297,275	206,848	2,153,640
Total accumulated depreciation	31,631,747	2,867,579	206,848	34,292,478
Total capital assets, being depreciated, net	76,623,308	6,487,086	2,727,459	80,382,935
Component unit capital assets, net	\$ 76,623,308	\$ 6,487,086	\$ 2,727,459	\$ 80,382,935

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 5. CAPITAL ASSETS - Continued**

At July 1, 2001, the County made the following restatements to capital assets:

Governmental activities capital assets as reported in the general fixed assets account group – June 30, 2001	\$127,621,258
Recorded accumulated depreciation for depreciable assets	( 41,553,873)
Reclassify internal service fund fixed assets to governmental activities	<u>6,030,116</u>
Governmental activities capital assets as restated – July 1, 2001	<u>\$ 92,097,501</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$2,119,371
Public protection	1,187,931
Health and sanitation	659,191
Public assistance	329,908
Recreation and culture	92,603
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>2,084,785</u>
Total depreciation expense – governmental activities	<u>\$6,473,789</u>

Depreciation expense was charged to business-type functions as follows:

Business-type activities:	
County Disposal Sites CSA	\$1,254,289
Boulder Creek CSA	38,345
Rolling Woods CSA	6,177
Freedom County Sanitation District	47,124
Davenport Sanitation District	78,361
Place de Mer CSA	3,868
Sand Dollar Beach CSA	10,672
Summit West CSA	<u>3,640</u>
Total depreciation expense – business-type activities	<u>\$1,442,476</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 6. CAPITAL LEASES**

The County has entered into certain capital lease agreements under which the related equipment, computers, vehicles, and furniture will become the property of the County when all terms of the lease agreements are met.

	Stated Interest Rate	Present Value of Remaining Payments as of <u>June 30, 2002</u>
Governmental fund activities:		
Health Services – Computers & Furniture	5.81-6.79%	\$ 105,821
Human Resources – Computers & Furniture	5.74-5.90%	594,072
Warehouse – Equipment	6.79%	16,593
Service Center – Vehicles	4.75-6.79%	500,262
Business-type activities:		
County Service Area 9 Disposal Sites – Equipment	6.85%	<u>85,491</u>
Total capital lease obligations		<u>\$1,302,239</u>

Equipment, computers, vehicles, furniture, and accumulated amortization under capital lease are as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Equipment, computers, furniture, and vehicles	\$2,184,011	\$ - .
Equipment	<u>- .</u>	<u>669,300</u>
Total assets under capital lease	2,184,011	669,300
Less: Accumulated amortization	<u>890,503</u>	<u>459,650</u>
Net Value	<u>\$1,293,508</u>	<u>\$209,650</u>

As of June 30, 2002, capital lease annual amortization is as follows:

<u>Year ending June 30,</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>
2002 – 2003	\$ 497,819	\$91,347
2003 – 2004	350,560	- .
2004 – 2005	280,285	- .
2005 – 2006	<u>213,443</u>	<u>- .</u>
Total requirements	1,342,107	91,347
Less: Interest	<u>125,359</u>	<u>5,856</u>
Present value of remaining payments	<u>\$1,216,748</u>	<u>\$85,491</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES**

Long-term liabilities at June 30, 2002 included the following:

Type of indebtedness (purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
<b><u>Governmental Activities</u></b>					
<i>Acquisition and Refunding Certificates of Participation</i>					
1987 Issue (financed road improvements, a detention facility, a library, equipment, purchases of parkland and construction of a transfer station)					
Serial Certificates	8/1/88-8/1/07	5.50-8.375%	\$285,000-\$2,250,000	\$ 16,460,000	\$ 3,565,000
<i>Refunding Certificates of Participation</i>					
1996 Issue (financed construction of the County Emeline Avenue Health Services building and an infirmary in the County Medium Security Detention Facility)					
Serial Certificates	9/1/97-9/1/26	4.00-5.65%	\$190,000-\$1,605,000	20,955,000	19,085,000
Term Bonds	3/1/21-9/1/23	5.60%	\$1,230,000-\$1,370,000	3,900,000	3,900,000
<i>Lease Revenue Bonds</i>					
1994 Series A Issue (financed construction and equipment costs for the Santa Cruz County Consolidated Emergency Communications Center)					
Serial Bonds	6/15/97-6/15/08	5.375-5.90%	\$83,178-\$223,391	2,005,766	793,750
Term Bonds	6/15/09-6/15/24	6.125%	\$68,919-\$140,214	1,642,162	1,642,162
2001 Series B Issue (financed equipment for the Santa Cruz County Departments of Public Works, County Counsel and Agricultural Commissioner, and improvements to the Health Services Buildings)					
Serial Bonds	8/1/02-8/1/26	2.10-4.625%	\$200,000-\$760,000	9,675,000	9,675,000
Term Bonds	2/1/27-8/1/31	4.75%	\$405,000-\$485,000	2,225,000	2,225,000
<i>Lease Revenue Refunding Bonds</i>					
1995 Series A Issue (defeased 1988 & 1990A Certificates of Participation and financed construction and improvements to the Santa Cruz County Water Street and Rountree Lane Detention facilities)					
Serial Bonds	8/1/96-8/1/13	4.25-5.50%	\$445,000-\$3,080,000	18,270,000	9,085,000
Term Bonds	2/1/14-8/1/20	5.50%	\$695,000-\$1,035,000	6,015,000	6,015,000
<i>Revenue Bonds</i>					
1995 Series B Issue (financed improvements to existing drainage facilities of the Santa Cruz County Flood Control Zone No. 7)					
Serial Bonds	8/1/97-8/1/10	4.20-6.35%	\$175,000-\$360,000	3,565,000	2,590,000
Term Bonds	2/1/11-8/1/12	6.50%	\$380,000-\$405,000	785,000	785,000
<i>Local Agency Revenue Bonds</i>					
1999 Issue (defeased 1992 Place de Mer and 1993 Sand Dollar Beach Districts, and financed construction of the Sunset Beach Water Main Extension Project)					
Local Oblig Bonds	9/2/00-9/2/19	4.00-5.50%	\$20,000-\$85,000	<u>895,000</u>	<u>785,000</u>
Total Public Financing Authority debt				<u>86,392,928</u>	<u>60,145,912</u>
<i>CA Health Facilities Financing Authority (CHFFA)</i>					
1987 (financed capital projects for County health facilities)					
Notes	1987-2011	7.20%	\$60,000-\$757,000	<u>3,829,696</u>	<u>1,651,861</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

Type of indebtedness (purpose)	<u>Maturity</u>	<u>Interest Rates</u>	Annual Principal <u>Installments</u>	Original Issue <u>Amount</u>	Outstanding at <u>June 30, 2002</u>
<i>Local Assessment Bonds</i>					
1990 Issue Bostwick Lane Street Improvement (financed construction & infrastructure improvements)					
	9/1/90-9/1/04	6.40-8.00%	\$15,000-\$40,000	\$ <u>345,000</u>	\$ <u>110,000</u>
<i>Redevelopment Agency Tax Allocation Bonds</i> (to finance Live Oak/Soquel community improvement projects)					
1993 Issue Series A Revenue Tax Allocation Bonds					
Serial Bonds	9/1/94-9/1/08	5.00-5.10%	\$350,000-\$1,220,000	12,985,000	7,395,000
Term Bonds	9/1/09-9/1/15	5.25%	\$1,265,000-\$1,725,000	10,385,000	10,385,000
Term Bonds	9/1/16-9/1/23	5.30%	\$1,810,000-\$4,105,000	20,410,000	20,410,000
1993 Issue Series B Revenue Tax Allocation Bonds (Subordinate Loan)					
Serial Bonds	9/1/96-9/1/08	4.50-6.00%	\$150,000-\$260,000	2,530,000	1,565,000
Term Bonds	9/1/09-9/1/15	6.10%	\$295,000-\$410,000	2,460,000	2,460,000
Term Bonds	9/1/16-9/1/23	6.20%	\$440,000-\$670,000	4,385,000	4,385,000
1996 Issue Subordinate Tax Allocation Bonds					
Serial Bonds	9/1/97-9/1/14	4.00-5.50%	\$180,000-\$485,000	5,845,000	4,705,000
Term Bonds	9/1/15-9/1/17	5.60%	\$510,000-\$570,000	1,620,000	1,620,000
Term Bonds	9/1/18-9/1/22	5.625%	\$600,000-\$725,000	3,335,000	3,335,000
2000 Issue Subordinate Tax Allocation Refunding Bonds					
Serial Bonds	9/1/01-9/1/22	4.25-5.25%	\$490,000-\$1,280,000	17,855,000	17,395,000
2000 Issue Series A Subordinate Tax Allocation Bonds					
Serial Bonds	9/1/02-9/1/22	5.00-5.25%	\$140,000-\$2,035,000	6,525,000	6,525,000
Term Bonds	9/1/23-9/1/27	5.25%	\$2,150,000-\$2,660,000	11,990,000	11,990,000
Term Bonds	9/1/28-9/1/30	5.375%	\$2,810,000-\$3,125,000	8,900,000	8,900,000
2000 Taxable Series B Subordinate Tax Allocation Bonds					
Serial Bonds	9/1/22	7.75%	\$800,000	800,000	800,000
Term Bonds	9/1/23-9/1/30	7.875%	\$865,000-\$1,480,000	<u>9,200,000</u>	<u>9,200,000</u>
Total Redevelopment Agency Bonds				<u>119,225,000</u>	<u>111,070,000</u>
<i>Redevelopment Agency CERTS Loans Payable</i> (financing for the Community Swim Center)					
1996 CERTS Loan	8/1/96-8/1/06	4.25-5.00%	\$99,000-352,000	<u>2,231,380</u>	<u>1,271,788</u>
Total Governmental Activities				<u>\$212,024,004</u>	<u>\$174,249,561</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

Type of indebtedness (purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
<b><u>Business-type Activities</u></b>					
<i>Loans Payable</i>					
Enterprise fund-Sand Dollar Beach CSA					
Santa Cruz County Public Financing Authority	9/1/99-9/1/08	4.99-6.09%	\$10,000-\$20,000	\$ 135,000	\$ 107,091
Enterprise fund-County Disposal Sites CSA					
Santa Cruz County Public Financing Authority	8/1/88-8/1/06	5.50-8.375%	\$145,000-\$380,000	7,328,287	1,890,973
Enterprise fund-Davenport Sanitation District					
California State Department of Water Resources					
California Technology, Trade & Commerce Agency	1/1/88-1/1/22	2.50%	\$4,550-\$10,575	250,000	168,400
California State Water Resources Control Board-Revolving Loan	2/28/95-7/1/05	2.75%	\$3,550-4,817	310,691	258,321
Mountain Charlie Waterworks Settlement	5/31/01-5/31/20	2.60%	\$5,940-\$9,429	151,547	137,670
Enterprise fund- Summit West CSA					
Mountain Charlie Waterworks Settlement	11/15/99-1/1/06	7.50%	\$10,000-\$70,000	<u>140,000</u>	<u>50,000</u>
Total Business-type Activities				<u>\$8,315,525</u>	<u>\$2,612,455</u>
<b><u>Component Unit-Santa Cruz County Sanitation District (SCCSD)</u></b>					
1977 Revenue Bonds (financed acquisition and construction of sewer facilities)					
Serial Bonds	5/1/77-9/1/16	5.70-8.00%	\$25,000-\$470,000	\$ 6,000,000	\$ 4,340,000
1994 Issue Limited Obligation Improvement Bonds Freedom Boulevard Sewer Assessment District (financed construction of sewer facility)					
Serial Bonds	9/2/96-9/2/14	5.00-7.40%	\$30,000-\$90,000	976,154	780,000
Term Bonds	9/2/15-9/2/18	7.50%	\$95,000-\$120,000	425,000	425,000
1994 Issue Subordinated Certificates of Participation (financed the SCCSD's share of the improvements to the City of Santa Cruz sewer treatment facility)					
Serial Bonds	9/1/94-9/1/19	3.00-6.20%	\$110,000-\$1,060,000	14,620,000	6,205,000
Loans Payable-City of Santa Cruz (financed construction of the treatment plant expansion)					
Serial Bonds	2000-2019	2.80%	\$928,354-\$1,564,248	<u>24,374,832</u>	<u>21,516,743</u>
Total Component Unit				<u>\$46,395,986</u>	<u>\$33,266,743</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2002:

	Balance July 1, 2001 (as restated)	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2002	Amounts due within one year	Amounts due beyond one year
<b><u>Governmental Activities</u></b>						
Governmental Funds						
PFA- Acquisition and Refunding COP	\$ 4,005,000	\$ -	\$ 440,000	\$ 3,565,000	\$ 475,000	\$ 3,090,000
PFA-Refunding COP	23,430,000	-	445,000	22,985,000	465,000	22,520,000
PFA-1994A Lease Revenue Bonds	2,630,785	-	194,873	2,435,912	206,756	2,229,156
PFA-2001B Lease Revenue Bonds	-	11,900,000	-	11,900,000	600,000	11,300,000
PFA-Lease Revenue Refunding Bonds	16,190,000	-	1,090,000	15,100,000	1,150,000	13,950,000
PFA-Revenue Bonds	3,590,000	-	215,000	3,375,000	225,000	3,150,000
PFA-Local Agency Revenue Bonds	845,000	-	60,000	785,000	65,000	720,000
CA Health Facilities	1,959,558	-	307,697	1,651,861	129,816	1,522,045
Local Assessment Bonds	205,000	-	95,000	110,000	35,000	75,000
Redev Agency-Bonds	112,860,000	-	1,790,000	111,070,000	2,020,000	109,050,000
Redev Agency-Loans Pay	1,541,300	-	269,512	1,271,788	285,546	986,242
Compensated Absences	13,558,918	1,291,112	-	14,850,030	11,863,770	2,986,260
Capital Leases	<u>1,008,336</u>	<u>-</u>	<u>291,850</u>	<u>716,486</u>	<u>262,585</u>	<u>453,901</u>
Total Governmental Funds	<u>181,823,897</u>	<u>13,191,112</u>	<u>5,198,932</u>	<u>189,816,077</u>	<u>17,783,473</u>	<u>172,032,604</u>
Internal Service Funds						
Compensated Absences	3,096,855	-	182,994	2,913,861	2,318,860	595,001
Estimated Claims	8,393,700	4,492,748	-	12,886,448	6,572,088	6,314,360
Capital Leases	<u>525,031</u>	<u>142,904</u>	<u>167,673</u>	<u>500,262</u>	<u>177,383</u>	<u>322,879</u>
Total Internal Service Fnds	<u>12,015,586</u>	<u>4,635,652</u>	<u>350,667</u>	<u>16,300,571</u>	<u>9,068,331</u>	<u>7,232,240</u>
Total Gov Activities	<u>\$193,839,483</u>	<u>\$17,826,764</u>	<u>\$5,549,599</u>	<u>\$206,116,648</u>	<u>\$26,851,804</u>	<u>\$179,264,844</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

	Balance July 1, 2001 (as restated)	Additions	Deletions	Balance June 30, 2002	Amounts due within one year	Amounts due beyond one year
<b><u>Business-type Activities</u></b>						
Enterprise Funds						
Loans Payable						
Sand Dollar Beach	\$ 125,915	\$ -	\$ 18,824	\$ 107,091	\$ 15,000	\$ 92,091
County Disposal Sites	2,382,763	-	491,790	1,890,973	485,853	1,405,120
Davenport Sani Distr	585,231	-	20,840	564,391	21,378	543,013
Summit West	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>20,000</u>	<u>30,000</u>
Total Loans Payable	<u>3,143,909</u>	<u>-</u>	<u>531,454</u>	<u>2,612,455</u>	<u>542,231</u>	<u>2,070,224</u>
Postclosure Liability						
County Disposal Sites	<u>2,619,385</u>	<u>311,243</u>	<u>-</u>	<u>2,930,628</u>	<u>-</u>	<u>2,930,628</u>
Capital Leases						
County Disposal Sites	<u>165,500</u>	<u>-</u>	<u>80,009</u>	<u>85,491</u>	<u>85,491</u>	<u>-</u>
Total Bus-type Activities	<u>\$5,928,794</u>	<u>\$311,243</u>	<u>\$611,463</u>	<u>\$5,628,574</u>	<u>\$627,722</u>	<u>\$5,000,852</u>
<b><u>Component Unit-Santa Cruz County Sanitation District</u></b>						
Revenue Bonds	\$ 4,490,000	\$ -	\$ 150,000	\$ 4,340,000	\$ 160,000	\$ 4,180,000
Ltd Oblig Improv Bonds	1,240,000	-	35,000	1,205,000	40,000	1,165,000
COP	6,345,000	-	140,000	6,205,000	145,000	6,060,000
Loans Payable	22,494,932	-	978,189	21,516,743	1,005,578	20,511,165
Unamortized bond discount	<u>( 88,639)</u>	<u>-</u>	<u>( 5,293)</u>	<u>( 83,346)</u>	<u>-</u>	<u>( 83,346)</u>
Total Component Unit	<u>\$34,481,293</u>	<u>\$ -</u>	<u>\$1,297,896</u>	<u>\$33,183,397</u>	<u>\$1,350,578</u>	<u>\$31,832,819</u>

For financial reporting purposes, generally accepted accounting principles define the reporting entity as the primary government (the County), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, at June 30, 2002, long-term debt of Santa Cruz County includes debt of the Santa Cruz County Redevelopment Agency (RDA), the Public Financing Authority, and Local Assessment Districts.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

California Community Redevelopment Law (Health and Safety Code 33000 et seq) establishes the Santa Cruz County Redevelopment Agency as a distinct and separate legal entity responsible for its own bonded debt obligations. The RDA Tax Allocation Bonds are not a debt of the County of Santa Cruz, and the County is under no circumstances liable therefore. Similarly, the Public Financing Authority is a separate legal entity for whose debts the County of Santa Cruz is not liable. All Special Assessment debt disclosed on the County's financial report is payable solely from levies collected from property owners within an assessment area. The County has no obligations on this debt. The County is acting in an agent capacity for the property owners.

The County of Santa Cruz is therefore not obligated in any way for Redevelopment, Public Financing Authority, or Local Assessment obligations.

Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Estimated claims and compensated absences are generally liquidated by the General Fund and Internal Service Funds.

Governmental Activities

At June 30, 2002, annual debt service requirements of governmental activities to maturity are as follows:

*Public Financing Authority*

<u>Year ended June 30,</u>	<u>Acquisition and Refunding</u> <u>Certificates of Participation</u>		<u>Refunding</u> <u>Certificates of Participation</u>		<u>Lease Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 475,000	\$278,678	\$ 465,000	\$ 1,229,893	\$ 806,756	\$ 589,712
2004	520,000	237,013	500,000	1,208,413	923,638	564,316
2005	565,000	191,578	510,000	1,185,433	803,178	535,180
2006	615,000	142,166	535,000	1,161,130	830,307	511,331
2007	665,000	88,566	560,000	1,135,118	855,060	485,319
2008-2012	725,000	30,359	3,285,000	5,210,204	2,211,192	2,107,318
2013-2017	-	-	4,300,000	4,208,613	1,613,512	1,734,521
2018-2022	-	-	5,590,000	2,851,053	2,036,349	1,300,571
2023-2027	-	-	7,240,000	1,064,238	2,030,920	764,751
2028-2032	-	-	-	-	2,225,000	273,719
Total requirements	<u>\$3,565,000</u>	<u>\$968,360</u>	<u>\$22,985,000</u>	<u>\$19,254,095</u>	<u>\$14,335,912</u>	<u>\$8,866,738</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

<u>Year ended June 30,</u>	<u>Lease Revenue Refunding Bonds</u>		<u>Revenue Bonds</u>		<u>Local Agency Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 1,150,000	\$ 764,583	\$ 225,000	\$ 195,778	\$ 65,000	\$ 38,578
2004	1,150,000	710,245	240,000	183,508	65,000	35,571
2005	1,210,000	653,000	255,000	170,075	70,000	32,313
2006	1,280,000	591,355	270,000	155,503	65,000	28,973
2007	445,000	548,230	285,000	139,749	75,000	25,473
2008-2012	2,590,000	2,362,495	1,695,000	412,360	195,000	86,313
2013-2017	3,500,000	1,545,500	405,000	13,163	145,000	49,261
2018-2022	<u>3,775,000</u>	<u>431,888</u>	<u>-</u>	<u>-</u>	<u>105,000</u>	<u>8,663</u>
Total requirements	<u>\$15,100,000</u>	<u>\$7,607,296</u>	<u>\$3,375,000</u>	<u>\$1,270,136</u>	<u>\$785,000</u>	<u>\$305,145</u>

The Certificates of Participation, the Lease Revenue Bonds, and the Lease Revenue Refunding Bond retirements and related interest payments are paid from revenues from the General Fund. The Revenue Bonds retirements and related interest payments are paid from revenues generated from the Flood Control Zone No. 7 special revenue fund. The Local Agency Revenue Bonds retirements and related interest payments are paid from revenues generated from property owner's assessments.

*California Health Facilities Financing Authority (CHFFA)*

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 129,816	\$114,795
2004	139,620	105,123
2005	150,170	94,720
2006	161,513	83,531
2007	173,714	71,497
2008-2012	<u>897,028</u>	<u>147,131</u>
Total requirements	<u>\$1,651,861</u>	<u>\$616,797</u>

CHFFA debt retirements and related interest payments are paid from General Fund revenues.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

*Local Assessment Bonds*  
*Bostwick Lane Street Improvement Project*

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 35,000	\$ 7,400
2004	35,000	4,600
2005	<u>40,000</u>	<u>1,600</u>
Total requirements	<u>\$110,000</u>	<u>\$13,600</u>

In accordance with the Improvement Bond Act of 1915, the County is obligated to provide funds for delinquent assessments. The County has established redemption funds to facilitate bond payments for these purposes. However, these bonds do not constitute an indebtedness of the County, and are payable solely from special taxes collected from property owners within the improvement district.

*Redevelopment Agency*

<u>Year ended June 30,</u>	<u>Tax Allocation Bonds</u>		<u>Loans payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,020,000	\$ 6,055,015	\$ 285,546	\$ 55,010
2004	2,120,000	5,954,716	307,122	41,000
2005	2,220,000	5,849,046	326,703	25,625
2006	2,325,000	5,737,915	352,417	8,810
2007	2,440,000	5,620,676	-	-
2008-2012	14,100,000	26,093,816	-	-
2013-2017	18,120,000	21,933,363	-	-
2018-2022	23,490,000	16,387,296	-	-
2023-2027	27,375,000	8,280,141	-	-
2028-2032	<u>16,860,000</u>	<u>2,157,606</u>	<u>-</u>	<u>-</u>
Total requirements	<u>\$111,070,000</u>	<u>\$104,069,590</u>	<u>\$1,271,788</u>	<u>\$130,445</u>

The Tax Allocation Bonds retirements and related interest payments are secured by the pledge of tax revenues. The loan payable principal and interest are paid from redevelopment agency revenues.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

Business-type Activities

At June 30, 2002, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year ended June 30,</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 537,900	\$217,174
2004	576,343	181,299
2005	609,492	142,594
2006	356,163	100,694
2007	48,715	16,867
2008-2012	160,392	57,198
2013-2017	146,121	36,529
2018-2022	146,926	16,375
2023-2027	<u>30,403</u>	<u>1,052</u>
Total requirements	<u>\$2,612,455</u>	<u>\$769,782</u>

Loans payable principal and interest are paid from various enterprise fund revenues.

Component Unit

At June 30, 2002, annual debt service requirements of the Santa Cruz County Sanitation District to maturity are as follows:

<u>Year ended June 30,</u>	<u>Revenue Bonds</u>		<u>Limited Obligation Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 160,000	\$ 241,645	\$ 40,000	\$ 87,430
2004	175,000	232,345	40,000	84,830
2005	185,000	222,265	45,000	82,190
2006	200,000	211,485	50,000	79,175
2007	220,000	199,725	50,000	75,775
2008-2012	1,380,000	784,203	310,000	320,060
2013-2017	2,020,000	305,805	440,000	189,620
2018-2022	<u>-</u>	<u>-</u>	<u>230,000</u>	<u>26,250</u>
Total requirements	<u>\$4,340,000</u>	<u>\$2,197,473</u>	<u>\$1,205,000</u>	<u>\$945,330</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

<u>Year ended June 30,</u>	<u>Certificates of Participation</u>		<u>Loans payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 145,000	\$ 364,076	\$ 1,005,578	\$ 602,469
2004	155,000	356,085	1,033,734	574,313
2005	160,000	347,500	1,062,679	545,368
2006	170,000	338,340	1,092,434	515,613
2007	180,000	328,450	1,123,022	485,025
2008-2012	1,375,000	1,448,620	6,104,759	1,935,472
2013-2017	2,370,000	872,450	7,008,648	1,031,585
2018-2022	<u>1,650,000</u>	<u>146,125</u>	<u>3,085,889</u>	<u>130,204</u>
Total requirements	<u>\$6,205,000</u>	<u>\$4,201,646</u>	<u>\$21,516,743</u>	<u>\$5,820,049</u>

The 1977 Revenue Bond retirements and related interest payments are paid from sewer service charges revenues. Revenue is pledged first to secure revenue bond debt service with the remaining amount available for other Sanitation District purposes.

The 1994 Issue Limited Obligation Improvement Bonds-Freedom Boulevard Sewer Assessment District is collateralized by liens against properties of the assessments. Bond retirements and related interest payments are paid from assessments levied against the properties that benefit from the improvements.

The Certificates of Participation and the Loan Payable-City of Santa Cruz principal and related interest payments are payable from the District's net revenues after provision has been made for payment on the District's 1977 Revenue Bonds.

**New Debt Issue**

On October 15, 2001, the County of Santa Cruz Public Financing Authority issued Lease Revenue Bonds Series B to finance building repairs and the purchase of a building and various equipment. The bond issue consists of \$9,675,000 serial bonds with interest ranging from 2.1% to 4.625% and \$2,225,000 of 4.75% term bonds. The bonds are secured by the equity in the County's Water Street and Harkins Slough Road detention facilities.

**Legal Debt Limit**

The County's legal annual debt service limit as of June 30, 2002, is approximately \$273,117,579. The County's legal debt service limit is 1.25% of the total full cash valuation of all real and personal property within the County.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 7. LONG-TERM LIABILITIES - Continued**

**Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the coming year, the County has hired a consultant to perform calculations of excess investment earnings on various bonds and financings.

**NOTE 8. LANDFILL CLOSURE AND POSTCLOSURE COSTS**

The County of Santa Cruz operates the Buena Vista landfill for the disposal of municipal waste and a transfer station at the site of the closed Ben Lomond landfill. State and federal laws and regulations, including the California Integrated Waste Management Board Title 14, The California State Water Resources Control Board Title 23, and the Environmental Protection Agency Subtitle D of the Codified Federal Regulations 40, require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on each County landfill's capacity used as of each balance sheet date.

As of June 30, 2002, a liability for closure and postclosure maintenance in the amount of \$2,930,628 is reflected in the County Disposal Sites Enterprise Fund based upon landfill capacity used to date. As of June 30, 2002, Ben Lomond landfill was filled to 100% capacity, and the County estimates that the Buena Vista landfill is filled to 39.4% of capacity with an estimated remaining useful life of 17 years. The County will recognize the remaining estimated cost of closure and postclosure maintenance of \$4,691,011 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The estimates will also be adjusted annually for inflation or deflation, in accordance with State guidelines.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 8. LANDFILL CLOSURE AND POSTCLOSURE COSTS - Continued**

The County is required by State and Federal laws and regulations to make annual contributions to a fund to finance closure and postclosure maintenance. The County is in compliance with these requirements, and at June 30, 2002, cash of \$3,066,343 is held for this purpose, reported as restricted assets on the balance sheet. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example) these costs may need to be covered by charges to future landfill users.

Postclosure maintenance for both the Buena Vista and closed Ben Lomond landfills is provided for through a "Pledge of Revenue". The County Board of Supervisors adopted resolutions pledging future Refuse Disposal District (CSA 9-C) revenues annually through the prescribed postclosure maintenance period. An initial postclosure cost was estimated at the time of adoption of Pledge of Revenue resolutions and is adjusted for inflation on an annual basis.

**NOTE 9. PRIOR YEAR DEFEASANCE OF DEBT**

In prior years, the Santa Cruz County Public Financing Authority defeased Certificates of Participation (CERTS) by placing the proceeds of the new CERTS in an irrevocable trust to provide for all future debt service payments on the old CERTS. Accordingly, the trust account assets and liability for the defeased CERTS are not included in the County's financial statements. On June 30, 2002, the amount of defeased debt outstanding is \$400,000.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 10. DEFICIT NET ASSETS/FUND BALANCE**

*Deficit Net Assets*

Individual proprietary fund deficit net assets at June 30, 2002 are as follows:

Internal Service Funds	
Central Duplicating	\$ 38,842
Self-Insurance – Workers’ Compensation	\$6,576,939

The Internal Service Fund for Central Duplicating had deficit net assets of \$38,842 which resulted from current year losses. This deficit will be recovered in fiscal year 2002-03.

The Workers’ Compensation fund had deficit net assets of \$6,576,939 related to the losses payable for claims and the inclusion of estimates for incurred but not reported (IBNR) claims. It is anticipated that the County will have sufficient funds to pay annual requirements.

*Deficit Fund Balance*

Nonmajor governmental fund deficit fund balance at June 30, 2002 is as follows:

Special Revenue Funds	
In-Home Support Service	\$440

**NOTE 11. DEFINED BENEFIT PENSION PLAN**

*Plan Description*

All eligible County employees participate in the California Public Employees’ Retirement System (PERS). PERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the state. PERS provides retirement, disability, and death benefits based on the employees’ years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by state statute and County resolutions. Copies of PERS’ annual financial report and the required 10-year trend information may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 11. DEFINED BENEFIT PENSION PLAN - Continued**

*Funding Policy*

Participants are required to contribute 7% and 9% for miscellaneous and safety employees, respectively, of their annual covered salary. The County makes the contributions required of County employees on their behalf and for their account. The County is also required to contribute at an actuarially determined rate. The 2002 fiscal year contributions as a percentage of annual covered payroll were 0% for miscellaneous employees and 1.411% for safety employees. The contribution requirements of plan members and the County are established and may be amended by PERS.

*Annual Pension Costs*

The County's annual pension cost for the current year and two previous years was \$10,062,533, \$8,738,958, and 8,997,252, respectively. These were equal to the annually required contribution. The current year's required contribution was determined as part of the June 30, 1999 actuarial valuation using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions includes: (a) a rate of return on investments of 8.25%; (b) projected salary increases of 3.75% to 14.20% or 11.59% (for miscellaneous and safety employees, respectively) depending on age, service, and type of employment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. There are 15 years and 10 years remaining in the amortization period at June 30, 2002 (the valuation date) under the miscellaneous and safety plan, respectively. There was no net pension obligation upon implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Three year trend information (amounts in thousands):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/00	\$ 8,997	100%	-
6/30/01	8,739	100%	-
6/30/02	10,063	100%	-

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 12. POST-RETIREMENT HEALTH CARE BENEFITS**

In addition to the pension benefits described above, the County provides post-retirement pre-Medicare health care benefits for retirees and their dependents in accordance with the various employee representation units' agreements. These benefits are provided for those retirees who:

- Are enrolled in a medical plan at the time of retirement, and
- File an application for monthly retirement through PERS at the time of separation.

At June 30, 2002, approximately 350 retirees were eligible to receive such benefits. County contributions for fiscal year 2001-2002 were \$504,784. These contributions are funded on a pay-as-you-go basis.

**NOTE 13. DEFERRED COMPENSATION PLAN**

The County offers all of its full-time employees a deferred compensation plan (the Plan) created in accordance with Section 457 of the Internal Revenue Code. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into certificates of deposits and various mutual funds. The County has insignificant administrative duties.

The County implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, on July 1, 1997. The Statement requires new reporting standards for deferred compensation plans. Under these new requirements, the County no longer owns the amount deferred by employees or related income on these amounts as long as all assets and income of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries.

As of June 30, 2002, the Plan's assets, at market value, of \$43,553,658 are not recorded in the County's financial statements.

**NOTE 14. COMMITMENTS**

As of June 30, 2002, the County has construction contract commitments in the Department of Public Works (all fund types) and in Special Revenue and Capital Project Funds in the amount of \$3,503,759 and \$12,029,953, respectively.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 15. CONTINGENCIES**

**A. Litigation**

The County of Santa Cruz and the Santa Cruz County Flood Control and Water Conservation District are codefendants in litigation arising from the flooding of the Pajaro River during the winter of 1995. The trial and appellate courts in the liability phase of trial, have ruled in the favor of the plaintiffs. A trial to determine the percent of liability and the extent of damages is scheduled for August 2003. As damages have yet to be determined, no liability has been recorded in the financial statements. Any payment of damages will be apportioned by the Court and payments made by the County and Flood Control District over a period of years, and will require a financing structure. County management is of the opinion that the settlement amounts are not final or measurable as the County enters into the award phase of litigation and has other options to file claims for indemnity against other codefendants. The County has commenced actions to turn over the Pajaro River Levee to the State of California, which will limit future liability for inadequate maintenance.

**B. Federal and State Grants**

The County participates in a number of Federal and State grant programs subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs for or including the year ended June 30, 2002, have not yet been conducted or settled. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, management does not believe that any audit disallowances would have a significant effect on the financial position of the County.

**C. Medicare and Medi-Cal Reimbursements**

The County's Medicare and Medi-Cal cost reports for certain prior years are in various stages of review by the third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes that it has adequately provided for any potential liabilities which may arise from the intermediaries' review.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 16. SELF-INSURANCE**

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; medical malpractice; unemployment coverage and dental benefits to employees. The County is self-insured for its general and auto liability, workers' compensation, medical malpractice, and employees' dental coverage. The County has chosen to establish risk-financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits. Excess coverage is provided by the California State Association of Counties (CSAC) Excess Insurance Authority, a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties. The Authority is governed by a Board of Directors consisting of representatives of the member counties. Self-insurance limits per occurrence and Authority limits per year are as presented in the Statistical Section of this report.

Amounts in excess of these limits are self-insured. None of the insurance settlements over the past three years has exceeded the amount of insurance coverage. As of July 1, 2002, the workers' compensation liability limit per occurrence was reduced from \$500,000 to \$250,000.

The unpaid claims liability included in each of the Self-Insurance Internal Service Funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. It is the County's practice to obtain full actuarial studies annually. Annual premiums are charged by each self-insurance fund using various allocation methods which include actual costs, trends in claims experience and number of participants.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 16. SELF-INSURANCE - Continued**

Changes in the balances of claims liabilities during the past two fiscal years ended June 30, for all self-insurance Internal Service Funds combined are as follows:

	<u>2002</u>	<u>2001</u>
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$ 8,393,700	\$7,840,489
Incurred claims and claim adjustment expenses	11,213,766	4,307,114
Claim payments	( <u>6,721,018</u> )	( <u>3,753,903</u> )
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$12,886,448</u>	<u>\$8,393,700</u>

At June 30, 2002, the self-insurance funds held a total of \$8,797,470 in cash for the payment of these claims.

**Workers' Compensation**

The Workers' Compensation self-insurance program is funded on a cash flow plus contingency reserve basis. The County is liable for the first \$250,000 and carries catastrophic insurance coverage for any amount required by statute. At June 30, 2002, the estimated future liabilities were \$9,709,216. This was determined by adding the future liability amount to an estimate for incurred but not reported (IBNR) claims and subtracting the amounts in excess of the self-insured retention. As permitted by state and federal guidelines, the Workers' Compensation program is funded on a pay-as-you-go basis. The funding is closely monitored to ensure that claims are paid when due or required by law.

**Dental and Health**

On September 30, 1994, the County discontinued its medical self-insurance program. On January 5, 1991, the County established a self-insurance program to provide dental benefits. At June 30, 2002, the County had an estimated future liability of \$74,628 for dental and health. The County is fully insured for its alternative capitation dental program and for health coverage for employees represented by Operating Engineers Union Local 3.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 16. SELF-INSURANCE - Continued**

**Liability and Property**

The County is fully self-insured with no excess insurance coverage under the County's general insurance program. At June 30, 2002, the County had estimated future liabilities totaling \$3,046,354 which included estimates for known claims and losses as well as 50% of losses incurred but not reported (IBNR), and multiplying the amount by an estimated present value discount factor of 89.1%.

**Unemployment Insurance**

The Unemployment Insurance self-insurance program is considered a "reimbursable" program by EDD, since EDD provides benefits and bills the County quarterly after the fact. As billings are always one quarter in arrears, the estimated future liabilities are based on 25% of the amount budgeted for the new fiscal year. At June 30, 2002, estimated future liabilities were \$56,250.

**NOTE 17. PRIOR PERIOD ADJUSTMENTS**

The prior period adjustments has no effect on the results of the current year's activities, however, the cumulative effect decreased the net assets by the respective amounts stated below. The following explains why prior period adjustments were made during the fiscal year ended June 30, 2002:

**Nonmajor Enterprise Fund - Freedom County Sanitation District Fund**

The prior period adjustment of \$2,997,792 reflects the transfer of capital assets to the City of Watsonville.

**Internal Service Fund - Information Services and Service Center Funds**

The prior period adjustment of \$156,542 and \$604,204 reflects the adjustment to capital assets to correct the beginning equipment value in the Information Services and Service Center internal services funds, respectively.

**Fiduciary Funds – Investment Trust Funds**

The prior period adjustment of \$838,699,849 is the June 30, 2001 balance of the Investment Trust funds which, as a result of GASB Statement No. 34, was reclassified from the Agency funds and into the separately presented Investment Trust funds.

**COUNTY OF SANTA CRUZ, CALIFORNIA**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2002**

**NOTE 18. RECLASSIFICATIONS**

Due to the definition of an agency fund under GASB Statement No. 34, the county had evaluated its agency funds and reclassified some funds to the general fund.

Reclassifications were made for fiscal year 2000-2001. This was done for comparative purposes and has no effect on the basic financial statements for the fiscal year 2001-2002.

**NOTE 19. SUBSEQUENT EVENTS**

On July 2, 2002, the County issued Tax and Revenue Anticipation Notes at a 3.0% rate with reoffering yield of 1.65% rate in the amount of \$30 million. Tax and Revenue Anticipation Notes are issued annually as part of a cash management policy to maintain the County's working capital until sufficient taxes or revenues are collected to fund the County's operations. The notes are due July 1, 2003 and are collateralized by fiscal year 2002-2003 unrestricted revenues.

On August 1, 2002, the County issued 2002 Refunding Certificates of Participation ("The Certificates") to refund the County's outstanding obligations which were represented by the Acquisition and Refunding Certificates of Participation (Public Improvement Projects) dated as of June 1, 1987, which were originally delivered in the aggregate principal amount of \$16,460,000 (the "1987 Certificates"), to acquire additional public facilities, to fund a reserve fund for the Certificates, and to pay the costs of delivery of the Certificates. The Certificates consist of \$4,380,000 serial certificates with interest ranging from 4.0% to 5.15%, and \$1,260,000 of 5.25% term certificates due on August 1, 2032.