

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Santa Cruz have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### A. **Reporting Entity**

The County of Santa Cruz was established by an act of the State Legislature of California in 1850 and is governed by a five-member elected board. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the County of Santa Cruz and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational 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 reported as Special Revenue Funds:

Parks and Recreation Districts – County Service Area (CSA) 11  
Lompico Community CSA 11L  
Pajaro Dunes Fire Protection CSA 4  
County Fire Protection CSA 48  
Police Protection CSA 38  
Mosquito Abatement CSA 53

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

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

#### Road and Street Lighting Maintenance Districts:

Aptos Seascape CSA 3	Pineridge CSA 24
Hwy Safety CSA 9	Viewpoint CSA 25
Residential Lighting CSA 9A	Hidden Valley CSA 26
School Crossing Guard CSA 9B	Indian Rock CSA 27
County Road Repair CSA 9, Zone D	Lomond Terr CSA 28
Hutchinson Road CSA 13	Oak Ridge CSA 29
Oakflat Road CSA 13A	Glenwood CSA 30
Huckleberry Road CSA 13	Hidden Meadow CSA 31
Robak Drive CSA 16	View Circle CSA 32
Empire Acres CSA 17	Redwood Drive CSA 33
Whitehouse Canyon CSA 18	Larsen Road CSA 34
Westdale Drive CSA 21	Country Estate CSA 35
Kelly Hill CSA 22	Forest Glen CSA 36
Old Ranch Road CSA 23	Roberts Road CSA 37
Reed Street CSA 29	Pinecrest CSA 46
Ralston Way CSA 40	Braemoor CSA 47
Loma Prieta CSA 41	Vineyard CSA 50
Sunlit Lane CSA 42	Hopkins Gulch CSA 51
Bonita/Encino CSA 43	Upper Plsnt Valley CSA 52
Sunbeam Woods CSA 44	Riverdale Park Road CSA 55

#### Flood Control and Water Conservation Districts:

Santa Cruz County Flood Control and Water Conservation  
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 7  
Santa Cruz County Flood Control and Water Conservation Zone 8  
Santa Cruz County Flood Control and Water Conservation – General  
Pajaro Storm Drain Maintenance District

The following funds are reported as Enterprise Funds:

#### Sewer and Refuse Disposal Districts:

Boulder Creek CSA 7	Refuse Disposal CSA 9 Zone C
Pasatiempo 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

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

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

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.

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 component unit columns in the combined financial statements provide the financial data for the Santa Cruz County Sanitation District.

The Santa Cruz County Sanitation District is governed by a three-member board appointed by the Board of Supervisors. It is managed by the County Department of Public Works under the direction of the District Board of Directors. The District is reported as an enterprise fund. 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.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

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

#### B. Description of Funds and Account Groups

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into three broad fund categories, eight generic fund types and two account groups as follows:

*Government fund types* account for those activities through which most governmental functions of the County are financed. The measurement focus is based upon spending or financial flow and the determination of changes in fund balance (net current assets). The following are the County's governmental fund types:

The *General Fund* is the general operating fund of the County. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

*Proprietary fund types* account for the County's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is based upon cost of services, determination of net income and capital maintenance. The following are the County's proprietary fund types:

The *Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

*Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis.

*Fiduciary fund types* account for assets held by the County in a trustee capacity or as an agent for individuals or other entities. The following are the County's fiduciary fund types:

*Expendable Trust Funds* are accounted for in essentially the same manner as governmental fund types.

*Agency Funds* are custodial in nature (assets = liabilities) and do not involve measurement of results of operations.

*Account Groups* are used to establish accounting control and accountability for the County's governmental fund type fixed assets and long-term obligations. The following are the County's account groups:

*General Fixed Assets* – This account group is used to account for fixed assets of the County other than those accounted for in the proprietary fund types.

*General Long-Term Obligations* – This account group is used to account for all long-term obligations of the County, including compensated employee absences payable, except for those accounted for in the proprietary fund types and trust funds.

#### **C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general-purpose financial statements, and relates to the timing of measurements made, regardless of measurement focus applied.

All Governmental Fund Types, Expendable Trust Funds, and Agency Funds are accounted for using the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the fund liability is incurred if it is expected to be paid within 12 months, except for principal and interest on general long-term obligations which are recorded when due or when resources to make debt service payments during the next year become available. Liabilities expected to be paid after 12 months are recorded in the General Long-Term Obligations Account Group.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The County's property tax accrual policy is discussed in Note 1(F). The County's other primary revenue sources---interest and investment earnings and intergovernmental revenues---have been treated as "susceptible to accrual" under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, charges for services, and other revenue are not considered "susceptible to accrual" under the modified accrual basis and are recorded as revenues when received.

The Proprietary Fund Types are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

#### **D. Budget and Budgetary Accounting**

##### *General Budget Policies*

Chapter 1, Division 3, Title 3, of the Government Code of the State of California, known as the "Budget Act", the County prepares and adopts a budget for each fiscal year. The budget is a compilation of operating budgets from: individual functional units within the General Fund, Special Revenue Funds, Capital Projects Funds, and Proprietary Funds (operating plans). Budgets are adopted for all funds except for Debt Service Funds and certain special revenue funds, namely, Public Finance Authority, Health Services, Office of Criminal Justice Planning and Health and Sanitation Funds.

The County follows these procedures in establishing the budgetary data reflected in the financial statements.

- Prior to July 1, the County Administrative Officer submits to the Board of Supervisors a proposed program budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. In addition, the Auditor-Controller submits a proposed budget containing the line items of revenue and appropriations based upon the County Administrative Office budget proposal.
- On or before August 20, public hearings are conducted to obtain public comments. Such hearings shall be concluded within 10 calendar days.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- On or before October 3, the budget is legally enacted through passage of a resolution.
- On or before November 1, the Auditor-Controller publishes a final budget as recommended by the County Administrative Officer and adopted by the Board of Supervisors.
- Budget units are expenditure classifications which identify accounting or cost centers necessary or desirable for control of the County financial operation. The Board of Supervisors approves all transfers of budgeted appropriation amounts between budget units within any fund or between expenditure objects.
- The County of Santa Cruz uses formal budgetary integration as a management control device during the year for the primary government and all blended component units, except the Bostwick Lane, Mansfield Street, Pajaro Dunes, Fire Station, Local Assessment Districts, and the Public Financing Authority that do not annually adopt a budget.
- Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Budgetary control is maintained at the character level, except for fixed assets and other charges which are controlled by line item. Character levels are appropriation totals for salaries and employee benefits, services and supplies. All budgetary changes during the budget year require Board action as set forth in the “Budget Act”. Unencumbered appropriations at year-end lapse into fund balance. See the following paragraph for encumbered appropriations at year-end.

The County Board of Supervisors made several supplemental budgetary appropriations throughout the year, primarily to the Special Revenue and Capital Project Funds as shown below. Other supplemental budgetary appropriations in other funds were not considered material.

Job Training Partnership Act Fund	\$3,987,773
County Service Area #38	738,662
Hazard Mitigation FEMA Grant	1,256,501
Special District Flood Zone	875,162

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbrances at year-end are rebudgeted in the new year.

Encumbrances for certain commitments lapsed at year end. Commitments of \$89,408 in the Special Revenue Job Training Partnership Act (JTPA) Fund are not included in the reservation of fund balances for encumbrances. Because the County intends to honor these commitments, the 1999-2000 budget includes appropriations for these contracts.

#### **E. Cash and Investments**

The County follows the practice of pooling cash and investments of all funds with the County Treasurer, except for restricted funds which are generally held by outside custodians and classified as “Restricted Cash” on the accompanying financial statements. The earned interest yield on all funds held by the County Treasurer for fiscal year 1998-99 was approximately 5.22%. Interest earned on pooled investments is allocated to the appropriate funds based on the average daily cash balance of each fund.

Restricted cash represents (1) amounts held by a fiscal agent for capital project and equipment expenditures of the component unit Public Financing Authority, (2) amounts held by a fiscal agent for capital project and low moderate income housing project expenditures of the component unit Santa Cruz Redevelopment Agency, (3) amounts held by the Santa Cruz County Treasurer on behalf of the component unit, Santa Cruz County Sanitation District, for debt service as required by bond indentures, and (4) amounts held by the County Treasurer for various proprietary funds for fixed asset replacement.

Investments are stated at cost, except for the investments of the Local Agency Investments Funds, which are stated at market.

For purposes of the Statement of Cash Flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less at the time of purchase to be cash equivalents. The proprietary funds’ deposits in the County Treasurer’s commingled pool are in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the statement of cash flows.



**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

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

**F. Property Tax Levy, Collection, and Maximum Rate**

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.

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 – 1/2% per month	1 – 1/2% 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.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

For the 1997-98 fiscal year, the County issued a Teeter Plan Tax and Revenue Anticipation Note in the amount of \$7,350,000 to fund the anticipated amount of delinquent taxes. The note was rated SP-1+ by Standard and Poor's and matured on May 26, 1999 including principal and interest at 4.0%. The note was priced to yield 3.72%. The note is secured by a lien on all delinquent redemptions and provided for back-up liquidity from a Letter of Credit issued by the Canadian Imperial Bank of Commerce and a promissory note to be executed by the County Treasurer.

The County did not issue a Teeter Plan Tax and Revenue Anticipation Note in 1998-99 fiscal year but the County Tax and Revenue Anticipation Note issued subsequently on July 8, 1999 is partially secured by a lien on all delinquent redemptions. Please refer to Note 23 for additional information.

#### **G. Inventory of Supplies**

Inventories of the internal service funds, enterprise funds and the County's Warehousing Revolving Trust Fund are stated at cost. Cost is determined by the average cost method.

Inventory of the Health Services Agency (HSA) in the general fund is stated at cost. Cost is determined by the first-in, first-out method. The purchase method is used to account for HSA inventory; that is, inventories are recorded as expenditures when purchased.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### H. Fixed Assets

Fixed assets for general governmental purposes are recorded as expenditures at the time of purchase and are accounted for in the General Fixed Assets Account Group at historical cost, or at estimated historical cost where costs are not available. Donated assets are recorded at their fair market value at the time of receipt. No depreciation has been provided on fixed assets for general governmental purposes.

The County capitalizes equipment and vehicles which costs at least \$1,500 and has an estimated useful life of at least one year. Buildings and structures of \$25,000 and over are capitalized. The costs of normal maintenance and repairs or renovations that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have not been capitalized. Such assets normally are immovable and of value only to the County.

Fixed assets acquired by proprietary fund types are recorded at cost or estimated historical cost. Donated assets are recorded at their fair market value at the time of receipt. Net interest costs are capitalized on projects during the construction period. No interest costs are capitalized on projects during the construction period. No interest costs were capitalized during the 1998-99 fiscal year. Depreciation and amortization of fixed assets, including capitalized leases, are computed using the straight-line method applied over the estimated useful lives of the assets. Depreciation and amortization are charged against operations and accumulated depreciation is reported on proprietary fund balance sheets. Depreciation on contributed assets is recorded as a reduction of contributed capital.

The following analysis details the estimated useful lives for the various kinds of proprietary fund type assets:

<u>Type of Asset</u>	<u>Estimated Useful Life in Years</u>
Building and Structures	10 – 50
Equipment and Vehicles	3 – 15

#### I. Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation (\$8,266,339), sick leave (\$1,762,454), and other employee leave (\$899,210) in the amount of approximately \$10,928,003 million for the governmental fund types as of June 30, 1999, is recorded in the General Long-Term Debt Account Group (see Note 6). These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

#### **J. Leases**

The County leases various assets under both operating and capital lease agreements. For Governmental Fund Types, assets under capital leases and the related long-term lease obligations are reported in the General Fixed Assets and General Long-Term Debt Account Groups, respectively. For Proprietary Fund Types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

#### **K. Self-Insurance**

The County is self-insured for general liability, automobile liability, property damage, medical malpractice, workers' compensation and dental insurance claims. Internal Service Funds are used to account for the County's self-insurance activities. It is the County's policy to provide in each fiscal year, by premiums charged to affected operating funds, amounts sufficient to cover the estimated charges for self-insured claims, excess insurance and administrative costs. The Liability and Property Insurance and the Workers' Compensation Self-Insurance Funds' estimated claim liabilities are actuarially determined and include claims incurred but not reported.

#### **L. Intergovernmental Revenues**

The Federal and State governments reimburse the County for a portion of the costs associated with various programs, e.g. public assistance and public health, administered by the County. These reimbursements are recorded in the fund administering the program in the appropriate governmental aid category with the related program costs included in expenditures.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The respective grant agreements generally require the County to maintain accounting records and substantiating evidence sufficient to determine if all costs incurred and claimed are proper, and that the County is in substantial compliance with other terms of the grant agreements. These records are subject to audit by the appropriate government agency. Any amounts disallowed will either reduce future claims or be directly recovered from the County.

#### **M. Interfund Transactions**

During the course of normal operations, the County has numerous transactions between funds. Transfers of resources from a fund receiving revenue to a fund in which the resources are to be expended are recorded as operating transfers. Internal Service Funds record charges for services to County departments as operating revenue, and payments by County funds to the Internal Service Funds are recorded as operating expenses. Nonrecurring or nonroutine transfers of equity between funds are recorded as residual equity transfers and, accordingly, are reported as additions to or deductions from fund balances for governmental funds, and as additions to contributed capital or deductions from retained earnings for proprietary funds.

Receivables and payables arising from interfund transactions are classified as “due from other funds” or “due to other funds” in the accompanying combined balance sheet. Occasionally, more formal, long-term advances or loans are made between individual funds as a means of financing certain activities. The long-term part of these loans are classified as “advances to other funds” or “advances from other funds” in the accompanying combined balance sheet. Noncurrent portions of long-term interfund receivables are offset by a fund balance reserve account which indicates they do not constitute expendable financial resources available for appropriation.

Eliminations of interfund activity have been made within fund types but not between fund types.

#### **N. Indirect Cost Allocation**

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.

#### **O. Income Taxes**

The County and its related entities fall under the purview of Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

#### **P. Use of Estimates**

The preparation of general-purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### **Q. “Total (Memorandum Only)” Columns**

Total columns on the accompanying general-purpose financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

#### **R. Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the County’s financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Prior year data have been reclassified in some cases to allow for a more meaningful comparison.

#### **S. Applicability of GASB and FASB Pronouncements**

The County has elected to apply all applicable pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. This option has been selected for all proprietary funds.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### 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, Enterprise Davenport Sanitation District, Agency Welfare Advances, Agency Substitute Payee Welfare, Agency Aptos La Selva Fire District, Agency Deferred Compensation, 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

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### 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 1/2 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

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### 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, 1999 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	\$ 48,714.	\$ -	\$ 48,714
Deposits in treasury pool	17,010,005.	-	17,010,005
Investments in treasury pool	352,667,305.	-	352,667,305
Deposits in other banks	91,971.	478,000	569,971
Investments in other banks	11,263,811.	8,201,676	19,465,487
Restricted cash in treasury pool, County Disposal	( 2,359,864)	<u>2,359,864</u>	<u>-</u>
Total	<u>378,721,942</u>	<u>11,039,540</u>	<u>389,761,482</u>
Component Unit:			
Restricted cash in treasury pool	( 893,810)	893,810	-
Investments in treasury pool	38,867,003.	-	38,867,003
Investments in other banks	<u>-</u>	<u>984,654</u>	<u>984,654</u>
Total	<u>37,973,193.</u>	<u>1,878,464</u>	<u>39,851,657</u>
Total Reporting Entity	<u>\$416,695,135.</u>	<u>\$12,918,004</u>	<u>\$429,613,139</u>

The County cash on hand, deposits and investments as of June 30, 1999 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	\$ -	\$ -	\$48,714	\$ 48,714
Deposits	17,010,005	569,971	-	17,579,976
Investments	<u>352,667,305</u>	<u>19,465,487</u>	<u>-</u>	<u>372,132,792</u>
Total	369,677,310	20,035,458	48,714	389,761,482
Component Unit:				
Investments	<u>38,867,003</u>	<u>984,654</u>	<u>-</u>	<u>39,851,657</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

Total Reporting Entity	<u>\$408,544,313</u>	<u>\$21,020,112</u>	<u>\$48,714</u>	<u>\$429,613,139</u>
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# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 2. CASH AND INVESTMENTS – Continued

#### Deposits

At June 30, 1999, the balance of the County's deposits was \$17,579,976. \$471,000 of the bank balance in the treasury pool 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, 1999.

County deposits in Category 1 at June 30, 1999 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	\$17,010,005
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
Enterprise Davenport Sanitation District, Unrestricted	Bank of America	<u>-</u>	<u>20,971</u>
Total Primary Government		471,000	17,101,976
Restricted Special Revenue:			
Public Financing Authority	Bank of New York	<u>-</u>	<u>478,000</u>
Total Reporting Entity		<u>\$471,000</u>	<u>\$17,579,976</u>

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### 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 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 \$38,867,003 are held in the County's treasury pool and are commingled with those funds.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 2. CASH AND INVESTMENTS – Continued

County investments by category as of June 30, 1999 are follows:

<u>Description</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments in Treasury Pool:			
Repurchase agreements	\$ 18,558,348	\$ 18,558,348	\$ 18,558,348
Other Government Agency Securities	49,083,104	49,083,104	48,383,125
Commercial paper	29,943,583	29,943,583	29,971,100
Negotiable Certificates of Deposit	96,101,906	96,101,906	95,768,775
Medium Term Notes	103,313,150	103,313,150	103,145,475
Guaranteed Investment Contract	47,930,243	47,930,243	47,930,242
Restricted Special Revenue Public Financing Authority:			
U.S. Treasury bills and notes	4,361,872	4,361,872	4,361,872
Other government agencies securities	2,319,675	2,319,675	2,319,675
Component Unit:			
U.S. Treasury bills and notes	<u>984,654</u>	<u>984,654</u>	<u>984,654</u>
Totals	<u>\$352,596,535</u>	352,596,535	351,423,266
County Treasury pool investment in State			
Treasurer's Investment Pool		30,018,600	30,018,600
Special Revenue Redevelopment Agency investment			
In State Treasurer's Investment Pool		11,286,169	11,286,169
Restricted Special Revenue Public Financing Authority Money Market Funds			
		11,263,811	11,263,811
Restricted Debt Service Redevelopment Agency Money Market Funds			
		1,520,129	1,520,129
Santa Cruz County Schools Medical Insurance			
Investment in State Treasurer's Investment Pool		3,119,590	3,119,590
Santa Cruz County Schools Self-Insurance			
Investment in State Treasurer's Investment Pool		<u>2,179,615</u>	<u>2,179,615</u>
Total Investments – Reporting Entity		<u>\$411,984,449</u>	<u>\$410,811,180</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 3. DUE TO/FROM OTHER FUNDS, INTERFUND ADVANCES, AND OPERATING TRANSFERS**

Interfund receivables and payables as of and for the year ended June 30, 1999, by individual fund are summarized as follows (in thousands):

	Due From Other <u>Fund</u>	Due To Other <u>Fund</u>	Advances To Other <u>Funds</u>	Long-term Advances From Gen. <u>Fund</u>	Operating Transfers <u>In</u>	Operating Transfers <u>Out</u>
General Fund	\$ <u>145</u>	\$ <u>-</u>	\$ <u>128</u>	\$ <u>-</u>	\$ <u>24,802</u>	\$ <u>19,969</u>
Special Revenue Funds:						
Fire	-	-	-	-	118	11
Off Hwy Road & Trans	10,519	10,579	-	-	-	-
Public Financing Auth	-	-	-	-	4,812	193
Private Rev of Dwntrwn	-	-	-	-	18	18
Redevelopment Act	8	8	-	-	7,765	13,461
Park Dedication	-	-	-	-	150	52
Dist Gov by BOS						
Public Protection	-	365	-	-	5,260	5,260
Health & Sanitation	-	-	-	-	-	-
Recreation & Culture	-	-	-	-	15	98
Public Ways	-	-	-	-	-	-
Total Spec Rev Funds	<u>10,527</u>	<u>10,952</u>	<u>-</u>	<u>-</u>	<u>18,138</u>	<u>19,093</u>
Debt Service Funds:						
Redev Agency Bonds	-	-	-	-	5,696	-
Local Assess Bonds	-	2	-	-	-	-
Total Debt Serv Funds	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>5,696</u>	<u>-</u>
Capital Projects Fund	<u>4,466</u>	<u>98</u>	<u>-</u>	<u>-</u>	<u>1,322</u>	<u>143</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 3. DUE TO/FROM OTHER FUNDS, INTERFUND ADVANCES, AND OPERATING TRANSFERS - Continued**

	Due From Other <u>Fund</u>	Due To Other Fund	Advances To Other <u>Funds</u>	Long-term Advances From Gen. <u>Fund</u>	Operating Transfers <u>In</u>	Operating Transfers <u>Out</u>
Enterprise Funds:						
Davenport San Dist	-	4	-	-	-	-
County Disposal	-	-	-	-	-	150
Place de Mer	-	121	-	-	-	-
Sand Dollar Beach	-	1	-	-	-	-
Total Enterprise Funds	-	126	-	-	-	150
Internal Service Funds:						
Public Works	490	147	-	-	150	-
Total Int Serv Funds	490	147	-	-	150	-
Expendable Trust Funds:						
H&W Trust Health	-	-	-	-	7,169	8,964
H&W Trust Mental	-	-	-	-	990	5,243
H&W Trust Soc Serv	-	-	-	-	86	4,791
Total Exp Trust Funds	-	-	-	-	8,245	18,998
Agency Funds:						
County Departmental	5	2,826	-	-	-	-
Payroll	-	1,465	-	-	-	-
Property Tax Collection	-	5	-	-	-	-
Independent Agencies	-	12	-	128	-	-
Total Agency Funds	5	4,308	-	128	-	-
Totals	<u>\$15,633</u>	<u>\$15,633</u>	<u>\$128</u>	<u>\$128</u>	<u>\$58,353</u>	<u>\$58,353</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 4. FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group follows (in thousands):

	Balance <u>7/1/98</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/99</u>
Land	\$ 31,450	\$ - .	\$ 570	\$ 30,880
Building and structures	76,051	894	306	76,639
Equipment	<u>13,859</u>	<u>1,900</u>	<u>1,945</u>	<u>13,814</u>
Total	<u>\$121,360</u>	<u>\$2,794</u>	<u>\$2,821</u>	<u>\$121,333</u>

The following is a summary of proprietary fund type fixed assets for the County as of June 30, 1999 (in thousands):

	Enterprise <u>Funds</u>	Internal Service <u>Funds</u>
Land	\$ 1,859	\$ 97
Building and structures	23,975	1,322
Equipment	<u>4,882</u>	<u>25,436</u>
Total	30,716	26,855
Less accumulated depreciation and amortization	<u>7,695</u>	<u>20,125</u>
Net	<u>\$23,021</u>	<u>\$ 6,730</u>



# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 5. CAPITAL LEASES

The following schedule of property under capital leases by major classes at June 30, 1999 (in thousands):

	General Fixed Assets Account <u>Group</u>	Internal Service <u>Funds</u>
Equipment	\$2,736.	\$4,315.
Less: accumulated depreciation	<u>-</u> .	<u>(2,942)</u>
Total	<u>\$2,736.</u>	<u>\$1,373.</u>

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 1999 (in thousands):

	General Long- Term Debt Account <u>Group</u>	Internal Service <u>Funds</u>
<u>Year ending June 30,</u>		
1999 – 2000	\$ 320.	\$ 642.
2000 – 2001	156.	93.
2001 – 2002	45.	64.
2002 – 2003	- .	64.
2003 – 2004	<u>-</u> .	<u>59.</u>
Total minimum lease payments	521.	922.
Less: amount representing interest	<u>( 35)</u>	<u>( 81)</u>
Present value of minimum lease payments	<u>\$ 486.</u>	<u>\$ 841.</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 6. GENERAL LONG-TERM DEBT**

All long-term debt, except Local Assessment Bonds, shown in the following schedule is the responsibility of the Santa Cruz County Public Financing Authority, a component unit. The County is not responsible in any way for this debt under the bond indentures.

Interest rates on the bonded debt outstanding for the Public Financing Authority Certificates of Participation at June 30, 1999 are as follows (in thousands):

<u>Interest Rates</u>	
3.6 – 4.0%	\$ 410
4.1 – 4.5%	5,245
4.6 – 5.0%	8,450
5.1 – 5.5%	20,295
5.6 – 6.0%	12,309
6.1 – 6.5%	3,122
8.1 – 8.5%	<u>4,780</u>
	<u>\$54,611</u>

The following is a summary of long-term debt transactions of the County for the fiscal year ended June 30, 1999 (in thousands):

	<u>Balance</u> <u>7/1/98</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/99</u>
Certificates of Participation	\$ 56,998	\$ - .	\$2,387.	\$ 54,611
California Health Facilities Financing Authority	2,307	- .	108.	2,199
Redevelopment Agency Tax Allocation Bonds	77,385	- .	1,405.	75,980
Redevelopment Agency Note Payable	2,106	- .	99.	2,007
Local Assessment Bonds	470	- .	80.	390
Compensated Absences	9,795	1,133.	- .	10,928
Capital Leases	<u>633</u>	<u>163.</u>	<u>310.</u>	<u>486</u>
Totals	<u>\$149,694</u>	<u>\$1,296.</u>	<u>\$4,389.</u>	<u>\$146,601</u>

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 6. GENERAL LONG-TERM DEBT – Continued

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 the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, at June 30, 1999, long-term debt of the Santa Cruz County includes debt of the Santa Cruz County Redevelopment Agency, the Public Financing Authority, and Local Assessment Districts in the amounts of \$77,987,449, \$54,610,685, and \$390,000, respectively.

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. If these amounts were omitted from the financial statements, the long-term debt for which the County is liable would be \$13,613,483.

The County's legal debt margin is \$217,083,900 for general obligations bond indebtedness. The County had no general obligation bond indebtedness outstanding at June 30, 1999.

#### Long-Term Debt Service Requirements to Maturity

Under the reporting entity requirements, long-term debt of certain component units is included in the County's long-term debt group. Schedules of annual payment requirements for this debt follow:

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 6. GENERAL LONG-TERM DEBT – Continued

#### *Certificates of Participation – Public Financing Authority*

In 1985, 1987, 1988, 1990, 1991, 1994, 1996, and 1997, debt was issued by the Public Financing Authority for the purpose of acquiring fixed assets, which are leased to the County of Santa Cruz. A summary of future payments for these issues, including interest, to maturity follows (in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 – 2000	\$ 2,472	\$ 2,989	\$ 5,461
2000 – 2001	2,293	2,869	5,162
2001 – 2002	2,385	2,745	5,130
2002 – 2003	2,522	2,614	5,136
2003 – 2004	2,629	2,473	5,102
Thereafter	<u>42,310</u>	<u>25,655</u>	<u>67,965</u>
Totals	<u>\$54,611</u>	<u>\$39,345</u>	<u>\$93,956</u>

#### *California Health Facilities Financing Authority (CHFFA)*

Debt was issued in 1986 by CHFFA to finance capital projects including construction, acquisition, renovation, and expansion for County health facilities. A summary of future payments to maturity (2026), including interest at 7.2% follows (in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 – 2000	\$ 115	\$ 155	\$ 270
2000 – 2001	124	146	270
2001 – 2002	133	137	270
2002 – 2003	143	127	270
2003 – 2004	154	116	270
Thereafter	<u>1,530</u>	<u>438</u>	<u>1,968</u>
Totals	<u>\$2,199</u>	<u>\$1,119</u>	<u>\$3,318</u>

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 6. GENERAL LONG-TERM DEBT – Continued

#### *Redevelopment Agency Tax Allocation Bonds*

In July 1990, the Santa Cruz County Public Financing Authority issued Tax Allocation (Revenue) Bonds and loaned the proceeds to the Redevelopment Agency for the purpose of refunding the outstanding 1988 Tax Allocation Bonds. In December 1993, the Santa Cruz County Financing Authority issued Tax Allocation (Revenue) Bonds and loaned the proceeds to the Redevelopment Agency for the purpose of refunding the outstanding 1990 Series B Tax Allocation (Revenue) Bonds. The proceeds are financing certain redevelopment activities in the Live Oak/Soquel Community Improvement Project Area, respectively. A summary of future payments to maturity including interest ranging from 4.5% to 7.1% follows (in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 – 2000	\$ 1,480	\$ 4,313	\$ 5,793
2000 – 2001	1,555	4,233	5,788
2001 – 2002	1,640	4,148	5,788
2002 – 2003	1,730	4,057	5,787
2003 – 2004	1,820	3,960	5,780
Thereafter	<u>67,755</u>	<u>45,979</u>	<u>113,734</u>
Totals	<u>\$75,980</u>	<u>\$66,690</u>	<u>\$142,670</u>

#### *Redevelopment Agency Notes Payable*

In August 1996, a CERTS loan from the County of Santa Cruz in the amount of \$2,000,000 was incurred by the Agency as additional financing for the Community Swim Center project. Additional costs for a share of the cost of issuance and reserve fund bring the total amount of the loan to \$2,231,380. Funds have been drawn down wholly. Interest is calculated with rates ranging from 4.25% to 5.0%. The balance extended as of June 30, 1999 is \$2,007,449. A summary of future payments to maturity follows (in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 – 2000	\$ 225	\$ 89	\$ 314
2000 – 2001	241	79	320
2001 – 2002	269	68	337
2002 – 2003	286	55	341
2003 – 2004	307	41	348
Thereafter	<u>679</u>	<u>34</u>	<u>713</u>
Totals	<u>\$2,007</u>	<u>\$366</u>	<u>\$2,373</u>

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 6. GENERAL LONG-TERM DEBT – Continued**

*Special Assessment Bonds – Non-Enterprise*

Various Non-Enterprise Special Assessment Bonds are included as component units for reporting purposes in the County’s long-term debt group. The bonds were issued to finance the cost of various construction activities and infrastructure improvements which have a special and direct benefit to the related property owners. A summary of the bonds issued follows (in thousands):

	<u>Balance</u> <u>6/30/99</u>
Bostwick Lane Street Improvement Project, 6.4% - 8% Serial Bonds	\$195
Mansfield Street Assessment District, 9.5% Serial Bonds	20
Pajaro Dunes Fire Station Assessment District, 6% - 8% Serial Bonds	<u>175</u>
 Total	 <u>\$390</u>

At June 30, 1999, the debt service requirements until maturity on these issues are as follows (in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 – 2000	\$ 85	\$ 28	\$113
2000 – 2001	100	20	120
2001 – 2002	95	13	108
2002 – 2003	35	9	44
2003 – 2004	35	6	41
Thereafter	<u>40</u>	<u>3</u>	<u>43</u>
 Totals	 <u>\$390</u>	 <u>\$79</u>	 <u>\$469</u>

The County has established redemption funds for the purpose of facilitating bond payment in the case of delinquent assessments. 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 districts.

*Other Liabilities*

It is not practicable to determine the specific year for payment of the estimated liabilities for unpaid compensated absences. Unpaid compensated absences are discussed in Note 1. Capital lease obligations are discussed in Note 5.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 7. PROPRIETARY FUND TYPES LONG-TERM DEBT

#### *Enterprise Fund Debt*

#### **Primary Government:**

Various sanitation districts, included as component units in the County of Santa Cruz financial statements, have issued long-term debt, and are accounted for as Enterprise Funds. At June 30, 1999, material debt service requirements on maturity on these issues are as follows (in thousands):

<u>Year</u>	<u>Special Assessment Bonds</u>
1999 – 2000	\$ 96.
2000 – 2001	91.
2001 – 2002	96.
2002 – 2003	67.
2003 – 2004	69.
Thereafter	<u>279.</u>
	698.
Less: unamortized bond discount	( 12)
Less: interest	<u>(173)</u>
Total	<u>\$513.</u>

#### **Component Unit Debt:**

<u>Year</u>	<u>Revenue Bonds</u>	<u>Special Assessment Bonds</u>	<u>Certificates of Participation</u>	<u>Loan Payable</u>	<u>Total</u>
1999 – 2000	\$ 390.	\$ 129.	\$ 509.	\$ 1,608.	\$ 2,636.
2000 – 2001	393.	127.	508.	1,608.	2,636.
2001 – 2002	400.	125.	511.	1,608.	2,644.
2002 – 2003	402.	127.	509.	1,608.	2,646.
2003 – 2004	407.	125.	511.	1,608.	2,651.
Thereafter	<u>5,729.</u>	<u>1,898.</u>	<u>9,388.</u>	<u>24,121.</u>	<u>41,136.</u>
	7,721.	2,531.	11,936.	32,161.	54,349.
Less: unamortized bond discount	(100)	-	-	-	(100)
Less: interest	<u>(2,971)</u>	<u>(1,221)</u>	<u>( 5,336)</u>	<u>( 7,786)</u>	<u>(17,314)</u>
Totals	<u>\$4,650.</u>	<u>\$1,310.</u>	<u>\$6,600.</u>	<u>\$24,375.</u>	<u>\$36,935.</u>

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 7. PROPRIETARY FUND TYPES LONG-TERM DEBT – Continued

General obligation bonds have been approved by voters of the various districts and secured by all real property within the districts. Special assessment bonds have been issued to finance improvements of benefit to specific properties, as authorized by various state improvements acts, and are collateralized by liens against properties of the districts. Bonds are repaid from assessments levied against the affected properties. The County of Santa Cruz has no obligation for payment of special assessment debt in the event of default.

Certificates of Participation were authorized and issued to finance the Santa Cruz County Sanitation District's (a component unit of Santa Cruz County) share of an expansion and improvement of the City of Santa Cruz's sewage treatment facility. Pursuant to a joint operating agreement between the Sanitation District and the City, the District is entitled to treatment capacity at the City's treatment facility. The certificates are payable from the Sanitation District's net revenues after provision has been made for payment on the Sanitation District's 1977 Revenue Bonds.

The loan payment represents a State Water Resources Control Board loan with the City of Santa Cruz for which the Sanitation District has an agreement to participate in the repayment. The total loan is available as of June 30, 1999 is approximately \$48 million, of which the Sanitation District's share will be 47% or approximately \$24.37 million. These funds were used to construct the treatment plant expansion of which the Sanitation District has capacity rights.

### 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.



# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### **NOTE 8. LANDFILL CLOSURE AND POSTCLOSURE COSTS – Continued**

As of June 30, 1999, a liability for closure and postclosure maintenance in the amount of \$2,410,402 is reflected in the County Disposal Sites Enterprise Fund based upon landfill capacity used to date. As of June 30, 1999, Ben Lomond landfill was filled to 100% capacity, and the County estimates that the Buena Vista landfill is filled to 33.79% of capacity with an estimated remaining useful life of 20 years. The County will recognize the remaining estimated cost of closure and postclosure maintenance of \$4,722,535 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1999. 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.

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, 1999, cash of \$2,359,864 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, 1999, \$32.9 million of CERTS outstanding are considered defeased and have been removed from the general long-term debt account group.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

**NOTE 10. PRIOR YEAR DEFEASANCE OF DEBT –  
REDEVELOPMENT ACT BONDS**

In prior years, the Santa Cruz County Public Financing Authority defeased revenue bonds on behalf of the Redevelopment Agency by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the County's financial statements. As of June 30, 1999, \$40.5 million of bonds outstanding are considered defeased and have been removed from the general long-term debt account group.

**NOTE 11. FUND EQUITY**

*Deficit Retained Earnings – Proprietary Funds*

Individual proprietary fund retained deficits at June 30, 1999 are as follows:

Internal Service Funds	
Central Duplicating	\$ 53,166
Self-Insurance – Workers' Compensation	\$4,176,836

The Internal Service Fund for Central Duplicating had a retained earnings deficit of \$53,166 which resulted from current year losses. This deficit will be recovered in fiscal year 1999-2000.

The Workers' Compensation Self-Insurance Fund had a retained earnings deficit of \$4,176,836. The deficit relates to the losses payable for claims and the inclusion of an estimate for incurred but not reported (IBNR) claims. It is anticipated that the County will have sufficient funds to pay annual requirements.

*Contributed Capital*

Contributed capital of the Proprietary Fund Types includes grant revenues and donations restricted for the acquisition or construction of capital assets.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

**NOTE 11. FUND EQUITY – Continued**

During fiscal year 1998-99, contributed capital increased or decreased by the following amounts (in thousands):

	Balance <u>7/1/98</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/99</u>
Enterprise Funds:				
Rolling Woods	\$ 2	\$ - .	\$ - .	\$ 2
County Disposal Site	<u>1,082</u>	<u>- .</u>	<u>- .</u>	<u>1,082</u>
Total Enterprise Funds	<u>\$1,084</u>	<u>\$ - .</u>	<u>\$ - .</u>	<u>\$1,084</u>
Internal Service Funds:				
Central Duplicating	\$ 40	\$ - .	\$ - .	\$ 40
Information Services	130	- .	- .	130
Public Works	1,805	- .	- .	1,805
Service Center	<u>1,473</u>	<u>- .</u>	<u>- .</u>	<u>1,473</u>
Total Internal Service Fund	<u>\$3,448</u>	<u>\$ - .</u>	<u>\$ - .</u>	<u>\$3,448</u>
Component Unit	<u>\$4,544</u>	<u>\$ 105</u>	<u>\$ 295</u>	<u>\$4,354</u>

**NOTE 12. BUDGET – GAAP DIFFERENCES**

The following schedule reconciles reporting for budgetary and GAAP purposes. The adjustment for Special Revenue funds is necessary because the Public Financing Authority, Office of Criminal Justice Planning Fund, and the Health and Sanitation Funds governed by the Board of Supervisors, all unbudgeted funds, are included as component units.

<u>Budgetary Fund Classification (in thousands)</u>	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Excess of revenue and other financing sources over (under) expenditures and other financing uses – budgeted funds	\$814.	\$1,926.	\$2,740.
Adjustments:			
To record excess of revenues and other financing sources over (under) expenditures and other uses – non-budgeted funds	<u>- .</u>	<u>( 904)</u>	<u>( 904)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses – GAAP	<u>\$814.</u>	<u>\$1,022.</u>	<u>\$1,836.</u>

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 13. 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.

#### *Funding Policy*

Participants are required to contribute 7% (9% for safety employees) 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 1999 fiscal year contributions as a percentage of annual covered payroll, were 5.612% for miscellaneous employees and 11.425% for safety employees. The contribution requirements of plan members and the County are established and may be amended by PERS. For the required Supplementary Schedule of Funding Progress, see page 58.

#### *Annual Pension Costs*

The County's annual pension cost for the current year and two previous years was \$13,506,317, \$13,402,726, and \$12,636,814, respectively. These were equal to the annually required contribution. The current year's required contribution was determined as part of the June 30, 1996 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 8.5%; (b) merit increases that vary with length of service, and (c) across the board real salary increases of 2%. Both (a) and (b) included an inflation component of 4.5%. 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 12 years remaining in the amortization period at June 30, 1999. There was no net pension obligation upon implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 13. DEFINED BENEFIT PENSION PLAN – Continued**

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>
6/30/96	\$12,636,814	100%	\$ - .
6/30/97	\$13,402,726	100%	-
6/30/98	\$13,506,317	100%	-

**NOTE 14. 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, 1999, 241 retirees were eligible to receive such benefits. County contributions for fiscal year 1998-99 were \$246,622. These contributions are funded on a pay-as-you-go basis.

**NOTE 15. 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, 1999, the Plan's assets, at market value, of \$35,008,786 are not recorded in the County's financial statements.

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The County (Primary Government) has ten enterprise funds which provide for sanitation, refuse or septic tank maintenance. Segment information for the year ended June 30, 1999, is presented in the following table:

Segment Information for Enterprise Funds  
June 30, 1999

	<u>Boulder Creek</u>	<u>Rolling Woods</u>	<u>Septic Tank Maint.</u>	<u>Freedom Sanitation</u>
Operating Revenue	\$ 193,370	\$ 31,634	\$ 897,833	\$ 616,912
Operating Expenses Before Depreciation	213,373	52,098	470,122	692,658
Depreciation	39,661	6,177	4,750	60,452
Operating Income (Loss)	(59,664)	(26,641)	422,961	(136,198)
Aid from Other Governmental Agencies	604	-	-	-
Property Taxes	-	-	-	-
Other Non-Operating Revenue (Expense)	7,761	24,942	25,738	131,388
Net Income (Loss)	(51,299)	(1,699)	448,699	(4,810)
Fixed Asset Additions	-	-	-	108,135
Net Working Capital	174,391	91,873	689,263	2,100,411
Total Assets	1,323,055	359,839	695,534	9,436,384
Bonds and Other Long-Term Liabilities Payable from Operating Expenses	-	54,078	-	-
Total Equity	1,321,790	279,807	689,534	8,967,212

<u>Davenport Sanitation</u>	<u>County Disposal</u>	<u>Place de Mer</u>	<u>Sand Dollar Beach District</u>	<u>Trestle Beach District</u>	<u>Summit West</u>	<u>Total</u>
\$ 227,875	\$ 9,409,507	\$ 36,320	\$ 132,832	\$ 20,790	\$ 40,391	\$ 11,607,464
36,381	5,848,082	62,706	202,191	23,956	3,798	7,605,365
55,426	770,414	3,868	5,225	-	-	945,973
136,068	2,791,011	(30,254)	(74,584)	(3,166)	36,593	3,056,126
-	-	-	-	-	-	604
12,183	-	-	-	-	-	12,183
(2,635)	440,323	222,055	22,174	1,918	1,731	875,395
145,616	3,081,334	191,801	(52,410)	(1,248)	38,324	3,794,308
194,714	687,805	-	-	-	-	990,654
84,167	15,256,510	196,062	231,800	28,565	56,721	18,909,763
1,919,762	28,518,567	493,747	585,839	28,565	56,861	43,418,153
464,267	5,587,371	269,353	129,933	-	-	6,505,002
1,445,770	22,144,180	72,664	439,620	28,565	56,721	35,445,863

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 17. COMMITMENTS

As of June 30, 1999, 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 \$1,598,671 and \$2,945,341, respectively.

### NOTE 18. CONTINGENCIES

#### A. **Litigation**

The County is currently a defendant in many lawsuits involving personal injury and damages in which substantial losses are claimed. The Santa Cruz County Redevelopment Agency, a component unit, is involved in an eminent domain action which has a potential for significant legal costs. The estimated potential losses and costs are included in the amount recorded for general liability as discussed in Note 19.

The County is a codefendant in litigation arising from the flooding of the Pajaro River during the winter of 1997. The lower court has ruled in the favor of the plaintiff and the extent of liability and damages have yet to be determined. This matter may be appealed and legislation has been passed to limit future liability for public agencies.

Various lawsuits have been instituted and claims have been made against the County, with provisions for potential losses included in the combined financial statements. In the opinion of County Counsel, it is not possible to accurately predict the County's liability under these actions, but final disposition should not materially affect the financial position of the County.

#### 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, 1999, 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.



# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 18. CONTINGENCIES – Continued

#### 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.

### NOTE 19. 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, Table XII.

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, 1999, 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 General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 19. 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>1999</u>	<u>1998</u>
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$7,975,584.	\$5,953,511.
Incurred claims and claim adjustment expenses	( 201,046)	3,604,697.
Claim payments	<u>( 786,518)</u>	<u>(1,582,624)</u>
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$6,988,020.</u>	<u>\$7,975,584.</u>

At June 30, 1999, the self-insurance funds held a total of \$4,131,550 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, 1999, the estimated future liabilities were \$5,013,285. This was determined by adding the future liability amount to an estimate for incurred but not reported (IBNR) claims, subtracting the amounts in excess of the self-insured retention and multiplying the amount by an estimated present value discount factor of 89.1%.

#### **Medical and Dental**

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, 1999, the County had an estimated future liability of \$57,945 for dental. The County is fully insured for its alternative capitation dental program and for health coverage for employees represented by Operating Engineers Union Local 3.

#### **General Liability**

The County is fully self-insured with no excess insurance coverage under the County's general insurance program. At June 30, 1999, the County had estimated future liabilities totaling \$1,879,290 which included estimates for known claims and losses as well as losses incurred but not reported (IBNR).

**COUNTY OF SANTA CRUZ, CALIFORNIA**

**Notes to the General-Purpose Financial Statements  
Year Ended June 30, 1999**

**NOTE 19. SELF-INSURANCE – Continued**

**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, 1999, estimated future liabilities were \$37,500.

**NOTE 20. EXCESS OF EXPENDITURES/EXPENSES OVER APPROPRIATIONS**

The following funds had expenditures/expenses that exceeded appropriations:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
Service Center	\$1,145,129	\$1,200,223	(\$ 55,094)
Workers’ Compensation	3,778,961	4,650,051	( 871,090)

**NOTE 21. PRIOR PERIOD ADJUSTMENTS**

The following explains why prior period adjustments were made during the fiscal year ended June 30, 1999:

***Redevelopment Agency***

In prior years, forgivable Conditional Notes totaling \$2,560,782 were recorded as Due from Other Governments in the accompanying combining balance sheet. These notes have been reclassified as a prior period adjustment and have been removed from the Due from Other Governments account.

***County Disposal Sites***

The prior period adjustment of \$93,307 is to reflect principal payment related to Certificates of Participation (CERTS 1990) that will match the debt schedule report.

# COUNTY OF SANTA CRUZ, CALIFORNIA

## Notes to the General-Purpose Financial Statements Year Ended June 30, 1999

### NOTE 22. RECLASSIFICATION AND RESTATEMENT

#### *Trial Court Fund*

During fiscal year 1997-98, the Trial Court Fund was reclassified from a special revenue fund to an external trust and agency fund in accordance with Assembly Bill 233, the Lockyer-Isenberg Trial Court Funding Act of 1997. Accordingly, its balance sheet is consolidated into the Trust and Agency Independent Agencies.

### NOTE 23. SUBSEQUENT EVENTS

On July 8, 1999, the County issued Tax and Revenue Anticipation Notes at 4.5% fixed rate in the amount of \$57 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 October 6, 2000, and are collateralized by fiscal year 1999-00 unrestricted revenues.

### NOTE 24. YEAR 2000 ISSUES

Starting in 1996-97, Santa Cruz County Information Services Department conducted a Year 2000 compliance needs assessment. As a result of this assessment, the County identified those information processing functions that were affected by two digit dates and developed a plan to bring computer applications into Year 2000 compliant.

Since the Spring of 1997, the County has worked toward the goal of ensuring that vital County services continued to be provided through the Year 2000. Significant internal resources have been applied to the computer applications Year 2000 compliance project. In the aggregate, the project has progressed according to plan. As of September 30, 1999, the project was tracked at 97% complete with an estimated completion time of November 1999. The County has expended approximately \$1.9 million in County staff resources and another \$0.5 million in replacement software applications. Before December 31, 1999, another \$0.2 million of internal resources will be required for program support, and another \$0.3 million for application replacement and outside contract service support. These are planned and budgeted expenditures. The County is also working with many of its business and data exchange partners to ensure Year 2000 readiness and compatibility.

While the County cannot guarantee that the County and all of its partners will address all of their Year 2000 risk successfully by the time they have potential to begin (which may be well before January 1, 2000), the County believes that it can be Year 2000 ready by December 31, 1999.