



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Supervisors and
the Grand Jury of
County of Santa Cruz, California

We have audited the general-purpose financial statements of the County of Santa Cruz, California, (the "County") as of and for the year ended June 30, 2001, as listed in the table of contents as "General-Purpose Financial Statements". These general-purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of Santa Cruz, California, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplementary information reflecting the funding progress related to the Public Employees' Retirement System is not a required part of the basic general-purpose financial statements but is a disclosure required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The supplemental information listed in the accompanying table of contents as "Supplemental Information Section - Combining and Account Group Financial Statements" is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

The financial information listed in the accompanying table of contents as "Statistical Section" is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the County. The information has not been audited by us and, accordingly, we express no opinion on such information.


Vargas and Company
San Jose, California
November 2, 2001