



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, (County) as of and for the year ended June 30, 1999, 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. The general-purpose financial statements of the County of Santa Cruz, California, as of and for the year ended June 30, 1998, were audited by other auditors whose report dated November 6, 1998, expressed a qualified opinion related to Year 2000 Issues on those statements,

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards 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.


Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000* Issues, requires disclosure of certain matters regarding the Year 2000 issue. The County has included such disclosures in Note 24. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determined until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the County's disclosures with respect to the Year 2000 issue made in Note 24. Further, we can not provide assurance that the County is, or will be, Year 2000 ready, that the County's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the County does business will be Year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding Year 2000 disclosures, 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, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

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, Lopez and Company
November 5, 1999
San Jose, California