SANTA CLARA COUNTY
FINANCING AUTHORITY
(A Component Unit of the
County of Santa Clara, California)

Independent Auditor's Reports,
Management's Discussion and Analysis
and Basic Financial Statements

For the Years Ended June 30, 2020 and 2019

MGO Certified Public Accountants

SANTA CLARA COUNTY FINANCING AUTHORITY
(A Component Unit of the County of Santa Clara, California)
For the Years Ended June 30, 2020 and 2019

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Certified
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Accountants

Independent Auditor's Report

The Board of Directors
Santa Clara County Financing Authority
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Clara County Financing Authority (Authority), a component unit of the County of Santa Clara (County), California, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 29, 2021

The following discussion and analysis of the Santa Clara County Financing Authority's (Authority) financial performance provides an overview of its financial activities for the years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the Authority's basic financial statements, which begin on page 7 of this report.

Financial Highlights

Year ended June 30, 2020

- In June 2020, the Authority issued $29.6 million of 2020 Series A Lease Revenue Bonds on behalf of the Central Fire Protection District (District). The bond proceeds were used to finance the acquisition, capital improvement and equipping of a headquarters building for the District.

Year ended June 30, 2019

- Long-term debt balance of the Authority increased by $433.2 million while the net investment in direct financing leases receivable balance increased by $330.7 million when compared to June 30, 2018.

- In August 2018, the Authority issued $55.1 million of 2018 Series A Refunding Lease Revenue Bonds on behalf of the County of Santa Clara (County). The bond proceeds, together with County contributions of $13.2 million, were used to pre-fund and refund the outstanding 2008 Series A Lease Revenue Bonds totaled to $72.6 million.

- In September 2018, the Authority issued $164.4 million of 2018 Series A County facilities Lease Revenue Bonds on behalf of the County. The bond proceeds were used to finance the acquisition of four building for the Champion Point Campus.

- In June 2019, the Authority issued $261.1 million and $16.1 million, respectively, of 2019 Series A and Series A taxable County facilities Lease Revenue Bonds. The bond proceeds were used to 1) finance the acquisition of all or a portion of (a)O'Connor Hospital in San Jose, California, and related interests and facilities, (b) Saint Louise Regional Hospital in Gilroy, California, and (c) De Paul Health Center in Morgan Hill, California, and related facilities (collectively, Acquired Health Facilities), and 2) to finance the costs of certain capital improvements to, and equipping of, the Acquired Health Facilities and Santa Clara Valley Medical Center.

Financial Statements

The Authority's financial statements are those of a special-purpose government engaged only in providing debt financing for public capital improvements benefiting the County. Under the requirements of the Governmental Accounting Standards Board, governments like the Authority that have only business-type activities may present only enterprise fund financial statements as follows:

1. Statement of net position;
2. Statement of revenues, expenses and changes in net position;
3. Statement of cash flows; and
4. Notes to the basic financial statements.

The Authority's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Authority is reported as a single enterprise fund.

Comparative Analysis

The following table summarized the components of net position for the years ended June 30, 2020, 2019 and 2018 (dollars in thousands):

	2020	2019	2018
Current assets	$ 205,763	$ 219,015	$ 100,020
Noncurrent assets	800,719	808,233	488,333
Total assets	1,006,482	1,027,248	588,353
Deferred outflows of resources	32,217	27,372	27,284
Current liabilities	62,131	59,725	45,564
Noncurrent long-term liabilities	955,007	979,253	558,743
Noncurrent derivative instruments liabilities	21,561	15,642	11,330
Total liabilities	1,038,699	1,054,620	615,637
Net position	$ -	$ -	$ -

Year ended June 30, 2020

As the table indicates, total assets decreased by $20.8 million during the year ended June 30, 2020. The decrease is due to the decreases of current assets and noncurrent assets of $13.3 million and $7.5 million, respectively. The decrease of current assets is primarily due to the decrease of $15.9 million in restricted cash and cash equivalents for bond proceeds paid out for the County's public capital improvement projects, offset by bond proceeds received from bond issuance. The decrease of noncurrent assets is due to the decrease in the noncurrent portion of the net investment in direct financing leases receivable balance representing the decrease of future lease payments to be received for debt service payments.

Deferred outflows of resources related to accumulated decrease in fair value of hedging derivatives and derivative instruments liabilities $5.9 million when compared to prior year due to change in interest rates.

Total liabilities, excluding derivative instrument liabilities, decreased by $21.8 million during the year ended June 30, 2020. The decrease was primarily due to bond principal payments of $48.1 million, offset by the issuance of $29.6 million of 2020 Series A Lease Revenue Bonds.

Year ended June 30, 2019

As the table indicates, total assets increased by $438.9 million during the year ended June 30, 2019. The increase is due to the increases of current assets and noncurrent assets of $119.0 million and $319.9 million, respectively. The increase of current assets is primarily due to the increase of $107.2 million in restricted cash and cash equivalents for bond proceeds received to be disbursed for the County's public capital improvement projects. The increase of noncurrent assets is due to the increase in noncurrent portion of the net investment in direct financing leases receivable balance representing the increase of future lease payment to be received for debt service payment.

Deferred outflows of resources related to accumulated decrease in fair value of hedging derivatives and derivative instruments liabilities increased by $4.3 million when compared to prior year due to change in interest rates.

Total liabilities, excluding derivative instruments liabilities, increased by $434.7 million during the year ended June 30, 2019. The increase was primarily due to the issuance of $164.4 million of 2018 Series A County Facilities Lease Revenue Bonds, and $261.1 million and $16.1 million, respectively, of 2019 Series A and Series A-Taxable County Facilities Lease Revenue Bonds. The increase is offset by the bond principal payments of $24.1 million made during the year.

The following table indicates the changes in net position for the years ended June 30, 2020, 2019, and 2018 (dollars in thousands):

	2020	2019	2018
Lease income	$ 490	$ 551	$ 678
Interest on net investment in direct financing lease	29,215	26,098	19,781
Total operating revenues	29,705	26,649	20,459
Operating expenses - administrative and other costs	490	551	678
Operating income	29,215	26,098	19,781
Nonoperating income (expense):			
Investment income	2,949	1,275	871
Nonoperating expense - bond interest	(31,857)	(23,518)	(21,083)
Nonoperating expense - bond issuance costs	(657)	(4,247)	-
Nonoperating revenue - Federal interest subsidy	350	392	431
Total nonoperating income (expense)	(29,215)	(26,098)	(19,781)
Change in net position	-	-	-
Net position, beginning of year	-	-	-
Net position, end of year	$ -	$ -	$ -

The statement of revenues, expenses and changes in net position identifies the various revenue and expense items, which impact the change in net position. As the information above indicates, the changes in net position were $0 for the past three years.

Year ended June 30, 2020

The Authority's operating revenues increased by $3.1 million during the year ended June 30, 2020, primarily from an increase of $3.1 million in the interest on net investment in direct financing leases offset by the decrease in lease income of $0.1 million. The change in interest on net investment in direct financing leases was directly related to change in the nonoperating revenues and expenses for the Authority.

Total net nonoperating expenses increased by $3.1 million during the year ended June 30, 2020. The increase was mainly due to an increase of interest expenses of $8.3 million offset by an increase of investment income and a decrease of bond issuance costs of $3.6 million. The increase in interest expense was primarily due to the increase in bonds payable towards the end of the prior fiscal year. The increase in investment income was mainly due to the increase in average cash and cash equivalents balances and rate of return. Bond issuance costs decreased as there was less bond issuance during the year.

Year ended June 30, 2019

The Authority's operating revenues increased by $6.2 million during the year ended June 30, 2019, primarily from an increase of $6.3 million in the interest on net investment in direct financing leases offset by the decrease in lease income of $0.1 million. The change in interest on net investment in direct financing leases was directly related to change in the nonoperating revenues and expenses for the Authority.

Total net nonoperating expenses increased by $6.3 million during the year ended June 30, 2019. The increase was mainly due to an increase of interest expenses of $2.4 million and increase of bond issuance costs of $4.2 million. The increase in interest expenses was mainly due to the increase in bonds payable. Bond issuance costs increased as there was several significant bond issuance during the year.

Long-term Debt

The long-term debt of the Authority was $1.01 billion and $1.03 billion as of June 30, 2020 and 2019, respectively. The bonds will be repaid through lease agreements with the County and District that are structured to meet principal and interest requirements when due.

During year ended June 30, 2020, long-term debt decreased by $23.0 million. The decrease was primarily due to bond principal payments of $48.1 million, offset by the issuance of $29.6 million of 2020 Series A Lease Revenue Bonds.

During the year ended June 30, 2019, long-term debt increased by $433.2 million. The increase was primarily due to the issuance of $164.4 million of 2018 Series A County Facilities Lease Revenue Bonds, and $26.1 million and $16.1 million, respectively, of 2019 Series A and Series A Taxable County Facilities Lease Revenue Bonds. The Authority also issued $55.1 million of 2018 Series A Refunding Lease Revenue Bonds to pre-fund and refund the outstanding 2008 Series A Lease Revenue Bonds totaled to $72.6 million. The increase is offset by the bond principal payments of $24.1 million made during the year.

Additional information on the Authority's long-term debt can be found in Note 5 of the basic financial statements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the County Controller, 2nd Floor, 70 West Hedding Street, San Jose, CA 95110.

SANTA CLARA COUNTY FINANCING AUTHORITY
(A Component Unit of the County of Santa Clara, California)
Statements of Net Position
June 30, 2020 and 2019
(In thousands)

	2020	2019
Assets		
Current assets:		
Restricted cash and cash equivalents (Note 3)	$ 149,754	$ 165,653
Accounts receivable	69	70
Accrued interest receivable	518	225
Rent receivable from the County of Santa Clara	6,017	4,805
Intergovernmental receivable - Federal interest subsidy	143	163
Net investment in direct financing leases - current (Note 4)	49,262	48,099
Total current assets	205,763	219,015
Noncurrent assets:		
Net investment in direct financing leases - noncurrent (Note 4)	800,719	808,233
Total assets	1,006,482	1,027,248
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives (Note 5)	21,561	15,642
Loss on refundings	10,656	11,730
Total deferred outflows of resources	32,217	27,372
Liabilities		
Current liabilities:		
Accounts payable	69	70
Bond interest payable	6,160	4,968
Bonds payable, net - current (Note 5)	55,902	54,687
Total current liabilities	62,131	59,725
Noncurrent liabilities:		
Bonds payable, net - noncurrent (Note 5)	955,007	979,253
Derivative instruments liabilities (Note 5)	21,561	15,642
Total noncurrent liabilities	976,568	994,895
Total liabilities	1,038,699	1,054,620
Net Position	$ -	$ -

See accompanying notes to basic financial statements.

SANTA CLARA COUNTY FINANCING AUTHORITY
(A Component Unit of the County of Santa Clara, California)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2020 and 2019
(In thousands)

	2020	2019
Operating revenues:		
Interest on net investment in direct financing leases	$ 29,215	$ 26,098
Lease income	490	551
Total operating revenues	29,705	26,649
Operating expenses:		
Administrative and other costs	490	551
Operating income	29,215	26,098
Nonoperating revenue (expense):		
Investment income	2,949	1,275
Bond interest	(31,857)	(23,518)
Bond issuance costs	(657)	(4,247)
Intergovernmental - Federal interest subsidy	350	392
Total nonoperating expenses, net	(29,215)	(26,098)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, ending of year	$ -	$ -

See accompanying notes to basic financial statements.

SANTA CLARA COUNTY FINANCING AUTHORITY
(A Component Unit of the County of Santa Clara, California)
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019
(In thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from lessee, principal portion	$ 48,098	$ 24,104
Cash received from lessee, interest portion	37,149	26,031
Cash receipt from the County for refunding	-	13,220
Cash received from other sources	491	565
Cash payments for general and administrative expenses	(491)	(565)
Cash payments for reimbursement of County projects	(50,893)	(369,463)
Net cash provided by (used in) operating activities	34,354	(306,108)
Cash flows from capital and related financing activities:		
Proceeds from bonds issuance	31,657	477,883
Payment to refunded bond escrow	-	(13,649)
Cash payments for bond issuance costs	(657)	(4,247)
Federal interest subsidy received	370	411
Cash payments for principal on bonds	(48,098)	(24,104)
Cash payments for interest on bonds	(36,181)	(24,739)
Net cash provided by (used in) capital and related financing activities	(52,909)	411,555
Cash flows from investing activities:		
Cash received from earnings on investments and cash equivalents	2,656	1,722
Net increase (decrease) in cash and cash equivalents	(15,899)	107,169
Cash and cash equivalents:		
Beginning of year	165,653	58,484
End of year	$ 149,754	$ 165,653

See accompanying notes to basic financial statements.

SANTA CLARA COUNTY FINANCING AUTHORITY
(A Component Unit of the County of Santa Clara, California)
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2020 and 2019
(In thousands)

	2020	2019
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ 29,215	$ 26,098
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Net investment in direct financing leases	6,351	(330,725)
Accounts receivable	1	14
Rent receivable from County of Santa Clara	(1,212)	(1,481)
Increase (decrease) in:		
Accounts payable	(1)	(14)
Net cash provided by (used in) operating activities	$ 34,354	$ (306,108)
Noncash capital and related financing activities:		
Amortization of premiums	$ (6,590)	$ (5,462)
Amortization of deferred outflows of resources - loss on refunding	1,074	1,015
Change in fair value of investments	(1,301)	(1,748)
Retirement of premiums due to refunding	-	(2,871)
Retirement of deferred loss on refunding due to refunding	-	4,923
Payment to refunded bond escrow agent from refunding bond proceeds	-	(60,367)

See accompanying notes to basic financial statements.

NOTE 1 – REPORTING ENTITY

The Santa Clara County Financing Authority (Authority) was organized on October 1, 1994, as a governmental agency by a Joint Exercise of Powers Agreement (Agreement) between the County of Santa Clara (County) and the Santa Clara County Central Fire Protection District (District). The Authority, which is reported as an enterprise fund, was created to finance the construction and renovation of existing and new facilities for the County's Santa Clara Valley Medical Center (SCVMC), the County, and the District through the issuance of revenue bonds.

The basic financial statements present only the Authority and are not intended to present fairly the financial position and the changes in financial position and cash flows of the County in accordance with accounting principles generally accepted in the United States of America (GAAP). The Board of Supervisors of the County constitutes the Board of Directors of the Authority. The Authority is an integral part of the County, and accordingly, the accompanying basic financial statements are blended as a component unit within the basic financial statements prepared by the County. A component unit is a separate legal entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. Enterprise funds are used to account for activities that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges for the activity.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations are included on the statements of net position. Revenues are recorded when earned and expenses are recorded when the related liabilities are incurred, regales of the timing of cash flows.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority is interest on net investment in direct financing lease and lease income from the County. Operating expenses for the Authority include costs of administrating the Authority. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents, which include unexpended bond proceeds and reserves established in accordance with related bond indentures, represent the Authority's share of the County Treasury's pool, as well as specific cash and cash equivalents managed by fiscal agents in accordance with debt agreements. The County has an investment committee, which performs

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

regulatory oversight for its pool. The Authority reports its investments at fair value. However, the value of the Authority's shares in the County Treasurer's pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. Additional information regarding fair value measurement of the investments in County Treasurer's Pool is presented in the notes of the County's basic financial statements.

For purposes of the accompanying statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Deposits in the County Treasurer's pool are in substance demand deposits and are, therefore, considered cash equivalents for the purpose of the statements of cash flows.

Bond Premiums, Bond Discounts, and Loss on Refundings

Bond premiums and discounts are recorded and amortized over the term of the bonds using the straight-line method. Bond premiums and discounts are presented as an increase or reduction of the face amount of bonds payable whereas issuance costs related to prepaid insurance are recorded as an asset. The Authority also has loss on refunding of debt, which result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is recorded as a deferred outflow of resources and amortized over the shorter of the life of the refunded or the refunding debt.

Net Investment in Direct Financing Leases

As described in Note 4, debt service on the lease revenue bonds is funded with lease payments made by the County and the District to the Authority for the use of facilities acquired or constructed with proceeds of debt issued by the Authority. In the lease agreements relating to the bonds, the County and the District have covenanted to make rental payments in amounts corresponding to the Authority's debt service requirements and related costs. The County and the District pay lease rental payments that approximate the Authority's administrative costs in connection with the Master Facility Lease, as well as the debt service requirements of the bonds. Net investment in direct financing leases reflects the present value of remaining future lease payments due from the County and the District. To the extent that funds are unexpended upon completion of all projects, such funds will be used to retire outstanding debt and the rental payments required from the County and the District will be reduced accordingly. The related property and facilities and debt are blended into the County's basic financial statements.

Arbitrage Rebates

The Authority is subject to potential arbitrage rebates related to all of its bond issues. Liabilities related to the excess of investment interest received from the proceeds of the bonds over interest paid have been accrued and are reflected in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effects of New Accounting Pronouncement

During the year ended June 30, 2020, the Authority implemented Governmental Accounting Standards Board Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. Implementation of this statement did not have a significant impact on the Authority's financial statements for the years ended June 30, 2020 and 2019.

Budget

Since the primary purpose of the Authority is to finance public capital improvements, the Authority does not have an annual appropriated budget. Instead, control over spending is maintained by means of project length budgets, which authorize total expenditures over the duration of the construction projects and debt service expenditures.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash Equivalents

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard and Poor's Corporation; bankers' acceptances; corporate notes; negotiable certificates of deposit of nationally or state-chartered banks or savings and loan associations; repurchase and reverse repurchase agreements; money market mutual funds, Local Agency Investment Fund; and County Treasury's Pool. Provisions of the Authority's bond trust agreements require that certain restricted accounts to be established. These accounts are held by a trustee for the repayment of debt, construction and improvements, and as reserves. These funds have been invested only as permitted by specific state statutes and applicable resolutions or bond indentures.

Credit Risk

The Authority follows the County's investment policy, which limits the Authority to invest in companies issuing money market funds having assets under management in excess of $500,000. The County's investment policy has no limit in the amount that may be invested in U.S. Treasury, agency or instrumentality issues, or the Local Agency Investment Fund. The County's investment policy limits the purchase of corporate notes or securities to be rated Aa3 or higher by Moody's Investors Service, Inc. and AA- or higher by Standard and Poor's Corporation.

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Authority. The Authority's investment with the County Treasury's pool mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5 percent of the total portfolio other than securities issued by the U.S. Government and its affiliated agencies. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the maturity of the Authority's cash equivalents and investments with fiscal agent to less than 5 years.

A summary of the Authority's cash and cash equivalents at June 30, 2020 and 2019 are shown below.

		June 30, 2020			
	Moody's	Weighted average maturities			
Investment Type	Credit Rating	Less Than Six Months	Six Months to One Year	One Year to Three Years	Total
Money Market Mutual Funds	Aaa	$ 25	$ -	$ -	$ 25
Investments in County Treasury's Pool	Not Rated	-	-	149,729	149,729
Total cash equivalents		$ 25	$ -	$ 149,729	$ 149,754

		June 30, 2019			
	Moody's	Weighted average maturities			
Investment Type	Credit Rating	Less Than Six Months	Six Months to One Year	One Year to Three Years	Total
Money Market Mutual Funds	Aaa	$ 30	$ -	$ -	$ 30
Investments in County Treasury's Pool	Not Rated	-	-	165,623	165,623
Total cash equivalents		$ 30	$ -	$ 165,623	$ 165,653

The Authority's investments in the County Treasury's Pool and money market mutual funds are exempt from fair value hierarchy disclosure. Additional information regarding custodial credit risk, interest rate risk and concentration of credit risk of the investments in County Treasurer's Pool is presented in the notes of the County's basic financial statements.

The Authority's restricted cash and cash equivalents were accounted for in the following sub-funds as of June 30, 2020 and 2019:

	2020	2019
Reserve sub-fund	$ 57,448	$ 56,943
Construction sub-fund	88,907	106,425
Investment interest sub-fund	3,105	1,999
Debt payment sub-fund	294	286
Total	$ 149,754	$ 165,653

NOTE 4 – NET INVESTMENT IN DIRECT FINANCING LEASES

Agreements with the County and the District

In accordance with the master lease agreement dated November 15, 1994, the County and the District lease land to the Authority for a nominal fee and in turn lease back the land and constructed facilities from the Authority. The lease was subsequently amended on September 15, 1997 to include additional lease facilities. The aforementioned lease with the County and the District expires on November 15, 2025, or at the time all related lease revenue bonds (see Note 5) and any other related obligations of the Authority, issued to finance the County's improvements and other public capital improvements, have been fully paid. At that time, title to the improvements will pass to the County.

In accordance with the master lease agreement dated September 1, 1998, the County leases facilities to the Authority for a nominal fee and in turn leases back the facilities from the Authority. This agreement was subsequently amended on October 1, 2001, December 1, 2003, May 1, 2005, February 1, 2006, August 1, 2007, and May 1, 2008 to include additional lease facilities. The aforementioned lease with the County expires on May 15, 2037, or at the time all related lease revenue bonds (see Note 5) and any other obligations of the Authority issued to finance the County and SCVMC improvements and other public capital improvements, have been fully paid. At that time, title to the improvements will pass to the County.

In accordance with various facilities lease agreement, the County leases facilities to the Authority for a nominal fee and in turn leases back the facilities from the Authority. These facilities lease agreement with the County has a final expiration date of May 1, 2049, or at the time all related lease revenue bonds (see Note 5) and any other obligations of the Authority issued to finance the County and SCVMC improvements and other public capital improvements, have been fully paid. At that time, title to the improvements will pass to the County.

In accordance with various site lease agreement, the District leases facilities to the Authority for a nominal fee and in turn leases back the facilities from the Authority. These facilities lease agreement with the District has a final expiration date of May 1, 2050, or at the time all related lease revenue bonds (see Note 5) and any other obligations of the Authority issued to finance the District's improvements and other public capital improvements, have been fully paid. At that time, title to the improvements will pass to the District.

During the years ended June 30, 2020 and 2019, the Authority disbursed $50,893 and $369,493, respectively, for the County's and District's capital improvement projects.

The net investment in direct financing leases to be received from the County and the District totaling $849,981 and $856,332 as of June 30, 2020 and 2019, respectively, represents the present value of the minimum lease payments, which are sufficient to provide for principal and interest payments under the bond agreements to the extent not available in cash and investments restricted for that purpose.

NOTE 4 – NET INVESTMENT IN DIRECT FINANCING LEASES (Continued)

Future Lease Payments

Assuming an effective variable interest rate of 0.08% at June 30, 2020 for 2008 Series M bonds, the estimated future lease payments from the County and the District as of June 30, 2020 are as follows:

Year ending June 30,	Principal	Interest
2021	$ 49,262	$ 33,586
2022	51,309	31,658
2023	53,602	29,497
2024	54,041	27,248
2025	46,272	24,905
2026 - 2030	191,086	100,777
2031 - 2035	206,835	66,139
2036 - 2040	117,475	38,726
2041 - 2045	104,125	20,750
2046 - 2050	62,900	4,969
Total	936,907	$ 378,255
Unexpended bond proceeds and reserves and others	(86,926)	
Net investment in direct financing leases	$ 849,981	

During the years ended June 30, 2020 and 2019, the Authority received principal lease payments of $48,098 and $24,104, respectively.

Net investment in direct financing leases increases when bond proceeds are expended on construction projects and decreases when cash is received from the County for scheduled principal payments on outstanding bonds. Unexpended bond proceeds for future construction costs and reserves required to be maintained in accordance with the bonds trust indenture do not result in a change in the net investment in direct financing leases since they represent cash available to the Authority for principal payment.

NOTE 5 – BONDS PAYABLE

Long-term liabilities at June 30, 2020 and 2019 consisted of the following:

Type of Indebtedness (Purpose)	Purpose of issuance	Maturity	Remaining Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2020	Outstanding at June 30, 2019
Lease Revenue Bonds:							
2008 Lease Revenue Bonds Series M	(b)	5/15/21 - 5/15/35	Variable	$5,350- $8,300	$ 143,105	$ 100,800	$ 106,000
2011 Lease Revenue Bonds Series A	(a)	2/1/21 - 2/1/26	5.90%	$1,072 - $1,393	20,368	7,500	8,502
2011 Lease Revenue Bonds Series B	(a)	2/1/21 - 2/1/26	4.91%	$265 - $282	3,639	1,642	1,903
2012 Lease Revenue Bonds Series A	(a)	2/1/21 - 2/1/24	4.00% - 5.00%	$8,550 - $9,810	86,920	36,785	44,935
2014 Lease Revenue Bonds Series O	(b)	5/15/21 - 5/15/23	3.00% - 4.00%	$1,390 - $1,490	11,715	4,325	5,660
2015 Lease Revenue Bonds Series P	(b)	5/15/21 - 5/15/31	5.00%	$5,770 - $9,400	102,435	81,985	87,475
2016 Lease Revenue Bonds Series Q	(b)	5/15/21 - 5/15/37	2.25% - 5.00%	$3,920 - $18,315	168,345	158,770	162,510
2016 Lease Revenue Bonds Series A	(b)	11/15/23 - 11/15/25	3.00% - 5.00%	$13,265 - $14,620	41,810	41,810	41,810
2018 Lease Revenue Bonds Series A Refunding	(b)	11/15/20 - 11/15/22	5.00%	$13,415 - $14,795	55,090	42,305	55,090
2018 Lease Revenue Bonds Series A	(a)	4/1/21 - 4/1/44	3.00% - 5.00%	$3,835 - $10,085	164,355	160,705	164,355
2019 Lease Revenue Bonds Series A	(a)	5/1/22 - 5/1/49	3.00% - 5.00%	$545 - $14,705	261,100	261,100	261,100
2019 Lease Revenue Bonds Series A Taxable	(a)	5/1/21 - 5/1/22	2.05% - 2.10%	$4,575 - $5,020	16,080	9,595	16,080
2020 Lease Revenue Bonds Series A	(a)	5/1/21 - 5/1/50	2.00% - 5.00%	$670 - $1,400	29,585	29,585	-
Total bonds payable						936,907	955,420
Plus unamortized original issue premium						74,002	78,520
Total bonds payable, net						$ 1,010,909	$ 1,033,940

(a) To finance capital projects of the County, District, and/or SCVMC.
(b) To refund prior bonds of the County, District, and/or SCVMC.

NOTE 5 – BONDS PAYABLE (Continued)

A summary of the changes in long-term debt during the fiscal years ended June 30, 2020 and 2019 follows (in thousands):

Type/Name of Bonds	Balance July 1, 2019	Addition	Retirement	Balance June 30, 2020	Balance due within one year
Lease Revenue Bonds:					
Series 2008 M	$ 106,000	$ -	$ (5,200)	$ 100,800	$ 5,350
Series 2011 A	8,502	-	(1,002)	7,500	1,072
Series 2011 B	1,903	-	(261)	1,642	265
Series 2012 A	44,935	-	(8,150)	36,785	8,555
Series 2014 O	5,660	-	(1,335)	4,325	1,390
Series 2015 P	87,475	-	(5,490)	81,985	5,770
Series 2016 Q	162,510	-	(3,740)	158,770	3,920
Series 2016 A	41,810	-	-	41,810	-
Series 2018 A Refunding	55,090	-	(12,785)	42,305	13,415
Series 2018 A	164,355	-	(3,650)	160,705	3,835
Series 2019 A	261,100	-	-	261,100	-
Series 2019 A Taxable	16,080	-	(6,485)	9,595	5,020
Series 2020 A	-	29,585	-	29,585	670
Subtotal bonds payable	955,420	29,585	(48,098)	936,907	49,262
Plus unamortized original issue premium	78,520	2,072	(6,590)	74,002	6,640
Total bonds payable, net	$ 1,033,940	$ 31,657	$ (54,688)	$ 1,010,909	$ 55,902

Type/Name of Bonds	Balance July 1, 2018	Addition	Retirement	Balance June 30, 2019	Balance due within one year
Lease Revenue Bonds:					
Series 2008 A	$ 72,590	$ -	$ (72,590)	$ -	$ -
Series 2008 M	111,050	-	(5,050)	106,000	5,200
Series 2011 A	9,437	-	(935)	8,502	1,002
Series 2011 B	2,162	-	(259)	1,903	262
Series 2012 A	52,695	-	(7,760)	44,935	8,150
Series 2014 O	6,950	-	(1,290)	5,660	1,335
Series 2015 P	92,710	-	(5,235)	87,475	5,490
Series 2016 Q	166,085	-	(3,575)	162,510	3,740
Series 2016 A	41,810	-	-	41,810	-
Series 2018 A Refunding	-	55,090	-	55,090	12,785
Series 2018 A	-	164,355	-	164,355	3,650
Series 2019 A	-	261,100	-	261,100	-
Series 2019 A Taxable	-	16,080	-	16,080	6,485
Subtotal bonds payable	555,489	496,625	(96,694)	955,420	48,099
Plus unamortized original issue premium	45,228	41,625	(8,333)	78,520	6,588
Total bonds payable, net	$ 600,717	$ 538,250	$ (105,027)	$ 1,033,940	$ 54,687

NOTE 5 – BONDS PAYABLE (Continued)

Annual future bond principal and interest payments as of June 30, 2020, are as follows:

Year ending June 30,	Principal	Interest [(1), (2), (3)]
2021	$ 49,262	$ 33,586
2022	51,309	31,658
2023	53,602	29,497
2024	54,041	27,248
2025	46,272	24,905
2026 - 2030	191,086	100,777
2031 - 2035	206,835	66,139
2036 - 2040	117,475	38,726
2041 - 2045	104,125	20,750
2046 - 2050	62,900	4,969
	$ 936,907	$ 378,255

(1) The 2008 Series M bonds initially bear variable interest based on Weekly Interest Rate. Upon fulfillment of certain conditions, the 2008 Series M bonds variable interest rate may be converted from a Weekly Interest Rate to (i) a Long-Term Interest Rate, or (ii) a Commercial Paper Interest Rate, as defined in the bond indenture. On June 30, 2020, the interest rate for the 2008 Series M bonds was 0.08%.

(2) The interest is before factoring in the Federal interest subsidy for the Series 2011 Series A bonds to be received by the Authority. The Federal interest subsidy on the Series 2011 Series A bonds is approximately $6,068 at issuance and as of June 30, 2020, approximately $924 is expected to be received through fiscal year 2026 without factoring in impact of sequester subsidy reductions.

(3) The interest is before factoring in the Federal interest subsidy for the Series 2011 Series B bonds to be received by the Authority. The Federal interest subsidy on the Series 2011 Series B bonds is approximately $1,069 at issuance and as of June 30, 2020, approximately $189 is expected to be received through fiscal year 2026 without factoring in impact of sequester subsidy reductions.

Variable Rate Demand Bonds

In connection with the issuance of the 2008 Series M Lease Revenue Bonds, the Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. for these bonds. At June 30, 2020, the letter of credit was set to expire on August 13, 2021. Any unreimbursed draws made would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Authority is required to pay Bank of America, N.A. an annual commitment fee of 0.32% (0.35% before August 13, 2018) based on the outstanding principal amount of the bonds supported by the credit facility. For the years ended June 30, 2020 and 2019, the Authority paid an annual commitment fee in the amount of $349 and $368, respectively.

Interest Rate Swap Related to the 2008 Series M Lease Revenue Bonds

Objective of the Interest Rate Swaps. In May 2005, the Authority issued 2005 Series F and 2005 Series G Lease Revenue Bonds (2005 Series F and G bonds) in the amount of $71,025 and $71,025, respectively. The bonds were issued to provide funds for the Charcot Center, the Valley Specialty Center and the Morgan Hill Courthouse. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2005, the Authority entered into interest rate swap agreements with Citibank, N.A. (Citibank) in connection with its $71,025 Series F and $71,025 Series G variable rate lease revenue bonds. The intention of the swaps was to effectively change the Authority's variable interest rates on the 2005 Series F and G bonds to a synthetic fixed rate of 3.185%.

In May 2008, the Authority issued lease revenue bonds 2008 Series M in the amount of $143,105 to fully refund the 2005 Series F and G in the total amount of $142,050. The difference of principal amount between the 2008 Series M and the refunded 2005 Series F and G bonds in the amount of $1,055 represents additional funding for the cost of issuance of 2008 Series M, and were fully repaid during fiscal years 2011 and 2010. The payment schedule for the 2008 Series M starting fiscal year 2012 remains the same as the combined debt service schedule for the refunded 2005 Series F and G bonds. The Authority continued to hedge the 2008 Series M bonds with the 2005 swap agreement.

Significant Terms. The bonds and related swap agreements both mature on May 15, 2035. The swaps' notional amount matches the outstanding principal amount of the 2008 Series M variable rate bonds. The swaps were entered into at the same time the 2005 Series F and G bonds were issued in May 2005. Starting fiscal year 2012, the notional value of the swaps declines as the principal amount of the associated debt begins to be repaid. Under the swaps, the Authority pays the counterparty a fixed payment of 3.185% and receives a variable payment computed as 56.5% of USD-LIBOR-BBA plus 0.33%.

Fair Value. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because interest rates have declined since the execution of the swaps, the swaps have a negative fair value of $21,561 and $15,642 as of June 30, 2020 and 2019, respectively.

Credit Risk. The aggregate fair value of the swaps represented the Authority's credit exposure to the counterparties as of June 30, 2020 and 2019. Should the counterparties fail to perform according to terms of the swap contracts, the Authority faced a maximum possible loss equivalent to the aggregate fair value of the swap. At June 30, 2020 and 2019, the Authority was not exposed to credit risk because the swaps had a negative fair value of $21,561 and $15,642, respectively. To mitigate the potential credit risk, the counterparties are required to post collateral, in the form of cash or federal government securities, if their credit ratings for long-term unsecured debt obligations fall below "A" by Moody's Investor Service or "A" by Standard and Poor's or Fitch Ratings. As of June 30, 2020 and 2019, Citibank's ratings for senior debt obligations were Aa by Moody's, A by Standard and Poor's, and A by Fitch Ratings.

NOTE 5 – BONDS PAYABLE (Continued)

Basis Risk. The Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Authority's bonds during the course of the year, the synthetic fixed rates for the fiscal year ended June 30, 2020 and 2019 were 2.826% and 2.969%, respectively.

Termination Risk. The Authority or Citibank may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Authority if Citibank's credit rating of long-term, unsecured, unenhanced senior debt obligations is withdrawn, suspended or falls below "Baa1" as determined by Moody's Investors Service, or "BBB+" as determined by Standard and Poor's, or fail to have any rated long-term, unsecured, unenhanced senior debt obligations. The swaps may be terminated by Citibank if the Authority's rating of long-term, unsecured, unenhanced senior debt obligations or lease obligations of the County is withdrawn, suspended or falls below "Baa3" as determined by Moody's Investors Service, or "BBB-" as determined by Standard and Poor's, or the County fails to have any rated long-term, unsecured, unenhanced senior debt obligations or lease obligations.

Counterparty Risk. The Authority is exposed to counterparty risk, which is related to credit and termination risk. The termination of the swaps may result in a payment to the counterparty. The Authority may also be exposed to counterparty risk in a high interest rate environment in the event the counterparty is unable to perform its obligations on a swap transaction leaving the Authority exposed to the variable rates on the associated debt.

Interest Rate Risk. The swaps are structured to reduce the Authority's exposure to interest rate risk.

Rollover Risk. The Authority is not exposed to rollover risk as the swaps match the terms of the 2008 Series M Bonds starting fiscal year 2012.

NOTE 5 – BONDS PAYABLE (Continued)

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2020, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal	Variable Interest (1)	Net Swap Interest (2)	Total Interest
2021	$ 5,350	$ 80	$ 2,756	$ 2,836
2022	5,500	76	2,608	2,684
2023	5,675	72	2,456	2,528
2024	5,875	67	2,300	2,367
2025	6,050	62	2,139	2,201
2026 - 2030	33,325	236	8,084	8,320
2031 - 2035	39,025	93	3,192	3,285
	$ 100,800	$ 686	$ 23,535	$ 24,221

(1) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2020 of 0.08%.

(2) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2020 of 0.1938%. Net swap interest at June 30, 2020 is calculated as follows: 3.185% minus (0.194% * 56.5% + 0.33%) equals to 2.746%.

Impact on Financial Statements. The impacts of the interest rate swaps on the financial statements for the years ended June 30, 2020 and 2019 are as follows:

	Deferred outflows of resources	Derivative instruments liabilities
Balance at June 30, 2018	$ 11,330	$ 11,330
Change in fair value	4,312	4,312
Balance at June 30, 2019	15,642	15,642
Change in fair value	5,919	5,919
Balance at June 30, 2020	$ 21,561	$ 21,561

Derivative instruments liabilities of $21,561 and $15,642 as of June 30, 2020 and 2019, respectively, represent the negative fair value of the interest rate swap agreements while deferred outflows of resources of $21,561 and $15,642 as of June 30, 2020 and 2019, represent accumulated decrease in fair value of hedging derivatives. The interest rate swap is valued using a variety of techniques such as matrix pricing and market corroborated pricing inputs and classified in Level 2 of the fair value hierarchy.

NOTE 5 – BONDS PAYABLE (Continued)

Issuance of 2011 Series A and Series B Lease Revenue Bonds

Under the Qualified Energy Conservation Bonds Program, the Authority will receive a direct subsidy payment from the Federal government to help offset the interest cost of the financing. The Federal interest subsidy equals to 70% of the Federal Qualified Tax Credit Bond Rate (Federal Rate) at the sale of the bonds.

On February 10, 2011, the Authority issued $20,368 of 2011 Series A Taxable Lease Revenue Bond (Qualified Energy Conservation Bonds Program) pursuant to a California Debt Limit Allocation Committee allocation. Proceeds from the issuance will be used to finance the acquisition, installation, and construction of solar electric generation systems on four County sites. The 2011 Series A bonds bear fixed interest rate of 5.90% and have a final maturity of February 1, 2026. On February 4, 2011, the pricing date of the 2011 Series A bonds, the Federal Rate was 5.44% and the Federal interest subsidy is estimated to be 70% of the Federal Rate, or 3.81%. For the years ended June 30, 2020 and 2019, the Authority recognized Federal interest subsidy revenue in the amount of $286 and $320, respectively.

On October 28, 2011, the Authority issued $3,639 of 2011 Series B Taxable Lease Revenue Bond (Qualified Energy Conservation Bonds Program) pursuant to a California Debt Limit Allocation Committee allocation. Proceeds from the issuance will be used to finance the acquisition, installation, and construction of upgrade lighting and lighting controls with energy efficient systems in certain County buildings. The 2011 Series B bonds bear fixed interest rate of 4.91% and have a final maturity of February 1, 2026. On October 24, 2011, the pricing date of the 2011 Series B bonds, the Federal Rate was 5.26% and the Federal interest subsidy is estimated to be 70% of the Federal Rate, or 3.68%. For the years ended June 30, 2020 and 2019, the Authority recognized Federal interest subsidy revenue in the amount of $64 and $72, respectively.

Effective October 1, 2017 through September 30, 2018, the Federal interest subsidy was reduced by 6.6%. Effective October 1, 2018 through September 30, 2019, the Federal interest subsidy was reduced by 6.2%. Effective October 1, 2019 through September 30, 2020, the Federal interest subsidy was reduced by 5.9%. Absent of Congressional action, the sequester reductions will continue through and including Federal's fiscal year ended September 30, 2021 and the sequester reduction percentage will vary between future years.

Issuance of 2018 Series A Refunding Lease Revenue Bonds

On August 21, 2018, the Authority issued $55,090 of 2018 Series A Refunding Lease Revenue Bonds on behalf of the County. The bond proceeds, including part of the premium received from the issuance, and County contributions of $13,649, totaled to $74,016 and was deposited into the refunding escrow to pre-fund the outstanding principal of $13,170 due on November 15, 2018 and fully refund the remaining outstanding 2008 Series A Lease Revenue Bonds of $59,420. The bonds bear a fixed interest rate of 5.00% with a final maturity date of November 15, 2022. The refunding achieved $4,862 in gross debt service savings and net present value savings of $4,685.

NOTE 5 – BONDS PAYABLE (Continued)

Issuance of 2018 Series A Lease Revenue Bonds

On September 26, 2018, the Authority issued $164,355 of 2018 Series A County Facilities Lease Revenue Bonds on behalf of the County. The bond proceeds were used to finance the acquisition of four buildings for the Champion Point Campus. The bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of April 1, 2044.

Issuance of 2019 Series A and Series A Taxable Lease Revenue Bonds

On June 27, 2019, 2018, the Authority issued $261,100 and $16,080, respectively, of 2019 Series A and Series A-Taxable County Facilities Lease Revenue Bonds on behalf of the County. The bond proceeds were used to 1) finance the acquisition of all or a portion of (a) O'Connor Hospital in San Jose, California, and related interests and facilities, (b) Saint Louise Regional Hospital in Gilroy, California, and (c) De Paul Health Center in Morgan Hill, California, and related facilities (collectively, Acquired Health Facilities), and 2) to finance the costs of certain capital improvements to, and equipping of, the Acquired Health Facilities and SCVMC. The 2019 Series A Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of May 1, 2049. The 2019 Series A-Taxable Bonds bear fixed interest rates ranging from 2.00% to 2.10% and have a final maturity date of May 1, 2022.

Issuance of 2020 Series A Lease Revenue Bonds

On June 25, 2020, the Authority issued $29,585 of 2020 Series A Fire District Facilities Lease Revenue Bonds on behalf of the District. The bond proceeds, including bond premium received from the issuance, totaled to $31,657 and were used to finance the acquisition, capital improvement and equipping of a headquarters building for the District. The bonds bear fixed interest rates ranging from 2.00% to 5.00% and have a final maturity date of May 1, 2050.

Events of Default and Acceleration Clauses

The Authority is considered to be in default for nonpayment by the Authority of the interest on and principal of or redemption premium, if any, on any bonds when due and payable. In the event of the occurrence and continuance of an event of default, the trustee may, upon the written request of the bondholders of not less than a majority in aggregate principal amount or accreted value of the outstanding bonds shall, declare the principal an accreted value of and interest on all outstanding bonds to be due and payable immediately.

Conduit Debt - Insured Revenue Bonds

On March 16, 2007, the Authority served as the conduit issuer of the 2007 Insured Revenue Bonds Series A ($50,000), Series B ($50,000), and Series C ($50,000) (collectively, "2007 Insured Revenue Bonds") in order to provide funds for the construction, renovation, and improvement of the El Camino Hospital, a nonprofit public corporation. These bonds were issued to fund a portion of the construction of a new five-level main hospital building and the purchase and installation of equipment (El Camino Hospital Project).

NOTE 5 – BONDS PAYABLE (Continued)

On May 15, 2008, the 2007 Insured Revenue Bonds were mandatory tendered at which time Series A ($49,175), Series B ($49,175), and Series C ($49,175) (collectively, "2007 Remarketed Insured Revenue Bonds") were remarketed as fixed interest rate bonds. The 2007 Remarketed Insured Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.75%, and have a final maturity date of February 1, 2041. At June 30, 2020 and 2019, the total outstanding balances of these conduit bonds were $111,075 and $114,675, respectively.

On March 30, 2009, the Authority served as the conduit issuer of the 2009 Variable Rate Revenue Bonds (2009 Bonds) in the amount of $50,000 in order to provide funds for the El Camino Hospital Project. The 2009 Bonds bear variable interest rate based on the Weekly Interest Rate as defined in the bond indenture. The 2009 Bonds have a final maturity date of February 1, 2044. At June 30, 2020 and 2019, the total outstanding balances for the 2009 Bonds were $50,000.

The Authority and the County has no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from payments made by the El Camino Hospital under the Loan Agreement. These bonds are not payable from any revenues or assets of the County. Neither the faith and credit nor the taxing power of the County, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Santa Clara County Financing Authority
San Jose, California

We have audited, 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, the financial statements of the Santa Clara County Financing Authority (Authority), a component unit of the County of Santa Clara (County), California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 29, 2021