

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2007

COUNTY OF SANTA CLARA
Single Audit Reports
For the Fiscal Year Ended June 30, 2007

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The Honorable Members of the
 Board of Supervisors of the
 County of Santa Clara
 San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California (the County), as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the FIRST 5 Santa Clara County; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and Los Altos Hills County Fire District (collectively, "Fire Districts"), which represent the following percentages of assets, net assets and revenues as of and for the fiscal year ended June 30, 2007:

Opinion Unit	Assets	Net Assets	Revenues
Governmental activities	2.9%	4.3%	3.6%
Business-type activities	1.2%	4.9%	0.3%
Aggregate discretely presented component units and remaining fund information	4.4%	4.6%	1.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting.

Accordingly, we express no such opinion. An audit also 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of funding progress and budgetary comparison schedule – General Fund as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule does not include expenditures of federal awards received by the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$220,745,022 in federal awards during the year ended June 30, 2007. The Housing Authority's expenditures are separately audited in accordance with OMB Circular A-133. The Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountants
Walnut Creek, California

December 14, 2007

County of Santa Clara
Management's Discussion and Analysis
Required Supplementary Information - Unaudited

As management of the County of Santa Clara (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities by \$1.9 billion (*net assets*) for the year. Of this amount, \$968.4 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to its citizens and creditors, and \$225.4 million (*restricted net assets*) may be used for the County's ongoing obligations related to programs with external restrictions. The County's net assets invested in capital assets, net of related debt were \$715.5 million. (See further detail in Table 1 on page 6).
- The County's total net assets increased by \$83.6 million for the year. (See further detail in Table 2 on page 8).
- At June 30, 2007, the County governmental funds reported combined fund balances of \$815.4 million, a decrease of \$176.3 million from prior year. Approximately 82.5 percent of the combined fund balances, \$673.0 million, is available to meet the County's current and future needs (*unreserved fund balance*), which represents a \$102.8 million decrease from prior year.
- At June 30, 2007, the County's unreserved fund balance for the General Fund was \$434.2 million or 23.0 percent of total General Fund expenditures.
- The County's investments in capital assets increased by \$160.2 million or 14.4 percent. (See further detail in Table 5 on page 15).
- The County's total long-term debt, net of debt service principal pay-off of \$95.8 million for the year, increased by \$20.1 million or 2.2 percent during the current fiscal year. (See further detail in Table 6 on page 17).

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the government-wide statements for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and culture. The business-type activities of the County include a hospital—Santa Clara Valley Medical Center (SCVMC), three airports (Reid Hillview, Palo Alto and South County) and two sanitation districts (County Sanitation Districts 2-3).

Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. Because of the governing board relationship and the exclusivity of County services, the financial operations of some component units are blended in the County's basic financial statements. These component units are the Santa Clara County Central Fire Protection District, South Santa Clara County Fire District, Los Altos Hills County Fire District, Santa Clara County Vector Control District, County Sanitation Districts 2-3 of Santa Clara County, Santa Clara County Financing Authority, Santa Clara County—El Camino Hospital District Hospital Facilities Authority, Santa Clara County Tobacco Securitization Corporation and the Silicon Valley Tobacco Securitization Authority. The Housing Authority of Santa Clara County and the FIRST 5 Santa Clara County are reported as discrete component units of the County.

The government-wide financial statements can be found on pages 21 - 23 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 24 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

The governmental funds financial statements can be found on pages 24 – 27 of this report.

Proprietary funds

The County maintains two kinds of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for one hospital—Santa Clara Valley Medical Center (SCVMC), three airports (Reid Hillview, Palo Alto and South County) and two sanitation operations (County Sanitation District 2-3). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its information services, fleet management, insurance claims, printing services, unemployment insurance, worker's compensation, employee benefits and retirees' healthcare. The internal service funds have been allocated between the governmental activities and business-type activities based on the relative percentage of use of the internal service funds in these activities.

Proprietary fund statements provide the same type of information as the business-type activities column in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the SCVMC, which is considered a major fund. The financial statements of the nonmajor enterprise funds (Airport and Sanitation District) are combined into a single aggregated presentation. Similarly, the County's eight internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the enterprise funds and the internal service funds is provided in the form of *combining statements* section of this report.

The proprietary funds financial statements can be found on pages 28 - 31 of this report.

Fiduciary funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary funds financial statements can be found on pages 32 - 33 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 35 - 85 of this report.

Required Supplementary Information

The required supplementary information is presented concerning the County's progress in funding its obligation to provide pension benefits to its employees and the County General Fund budgetary comparison schedule. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 87 - 100 of this report.

Combining Statements and Schedules

The combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and certain fiduciary funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 103 - 162 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets exceeded its liabilities by \$1.9 billion at June 30, 2007. As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Table 1—Net Assets (in thousands)

	Governmental		Business-type		Total		Total	
	Activities		Activities				Dollar	Percent
	2006	2007	2006	2007	2006	2007	Change	Change
Current and other assets	\$ 1,796,957	\$ 1,728,725	\$ 396,516	\$ 437,319	\$ 2,193,473	\$ 2,166,044	\$ (27,429)	(1.3%)
Capital assets	785,388	866,027	327,855	407,370	1,113,243	1,273,397	160,154	14.4%
Total assets	2,582,345	2,594,752	724,371	844,689	3,306,716	3,439,441	132,725	4.0%
Current and other liabilities	189,105	215,533	73,087	65,728	262,192	281,261	19,069	7.3%
Long-term liabilities	616,726	650,403	602,076	598,421	1,218,802	1,248,824	30,022	2.5%
Total liabilities	805,831	865,936	675,163	664,149	1,480,994	1,530,085	49,091	3.3%
Net assets:								
Invested in capital assets, net								
of related debt	598,143	673,075	21,529	42,466	619,672	715,541	95,869	15.5%
Restricted net assets	98,931	106,038	39,026	119,345	137,957	225,383	87,426	63.4%
Unrestricted net assets	1,079,440	949,703	(11,347)	18,729	1,068,093	968,432	(99,661)	(9.3%)
Total net assets	\$ 1,776,514	\$ 1,728,816	\$ 49,208	\$ 180,540	\$ 1,825,722	\$ 1,909,356	\$ 83,634	4.6%

Assets

The County's total assets increased by \$132.7 million or 4.0 percent primarily due to the following:

Governmental activities. Total assets for the governmental activities increased by \$12.4 million or 0.5 percent. The current and other assets decreased by \$68.2 million, while capital assets increased by \$80.6 million. The primary reason for decline in current and other assets was the end of the Measure B Program in March 2006. Capital assets used to support governmental activities increased by \$80.6 million or 10.3 percent; depreciable capital assets decreased by \$3.4 million, while non-depreciable capital assets increased by \$84.1 million. Changes in capital assets will be discussed in the Capital Assets section on page 15.

Business-type activities. Total assets for the business-type activities increased by \$120.3 million or 16.6 percent—a \$40.8 million increase in current and other assets and a \$79.5 million increase in capital assets. The increase in current and other assets consisted of a net \$8.0 million increase in the SCVMC's cash and investments; a \$17.8 million increase in patient receivables and other receivables; a \$2.4 million increase in receivables from other government agencies; and \$12.6 million increase in other assets. The \$79.5 million increase in capital assets was from the construction activities financed by the FY2006 bond proceeds. The SCVMC will spend the remaining funds on its projects in the next fiscal year. Changes in capital assets will be discussed in the Capital Assets section on page 15.

Liabilities

The County's total liabilities increased by \$49.1 million or 3.3 percent mainly due to the following:

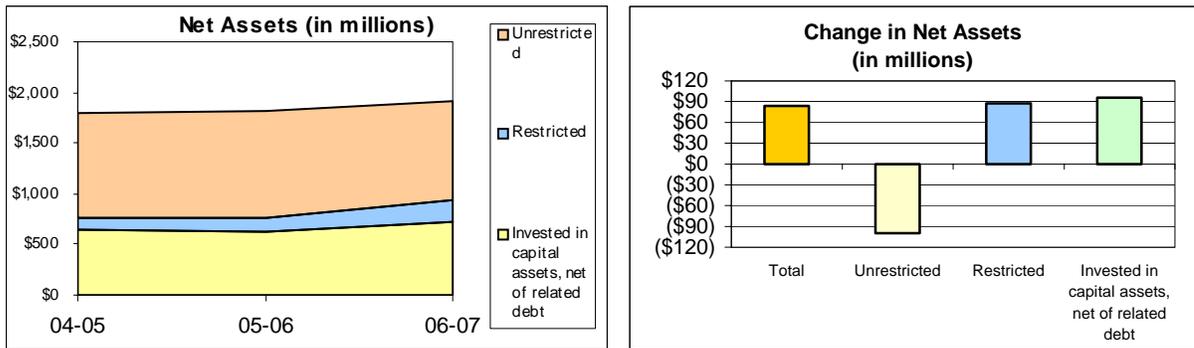
Governmental activities. Total liabilities for the governmental activities increased by \$60.1 million—\$26.4 million in current and other liabilities and \$33.7 million in long-term liabilities. The increases in current and other liabilities included a \$2.3 million in accrued salaries and benefits, \$4.5 million in Fire District's workers' compensation claims payable, \$2.2 million in interest payable to special districts, and a total of \$17.6 million in other current payables. Changes in long-term liabilities consisted of \$26.9 million in long-term debts and \$6.8 million in other long-term liabilities. The net change in long-term debts mainly attributed to the issuance of the new Tobacco Settlement Asset-backed Bonds (\$102.0 million) and 2006 Lease Revenue Bonds for Housing Authority (\$5.1 million), the retirement of the remaining Measure B special obligation bonds (\$71.4 million), and principal repayment for various bonds (\$8.8 million). The increases in other long term liabilities primarily came from a \$6.6 million increase in accrued vacation and sick leave due to increased leave balances and the higher average hourly rate. Changes in long-term debts will be discussed further in the Long-term Debt section on page 17.

Business-type activities. Total liabilities for the business-type activities decreased by \$11.0 million mainly contributed by the debt service payments and increase in estimated third-party payers settlements.

Net Assets

The largest portion of the County’s net assets (50.7%) represents *unrestricted net assets* of \$968.4 million, which may be used to meet the County’s ongoing obligations to citizens and creditors. Another significant portion of the County’s net assets of \$715.5 million (37.5%) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, and equipment and vehicles) net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining \$225.4 million (11.8%) of the County’s net assets represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all categories of net assets for its governmental activities and business-type activities.

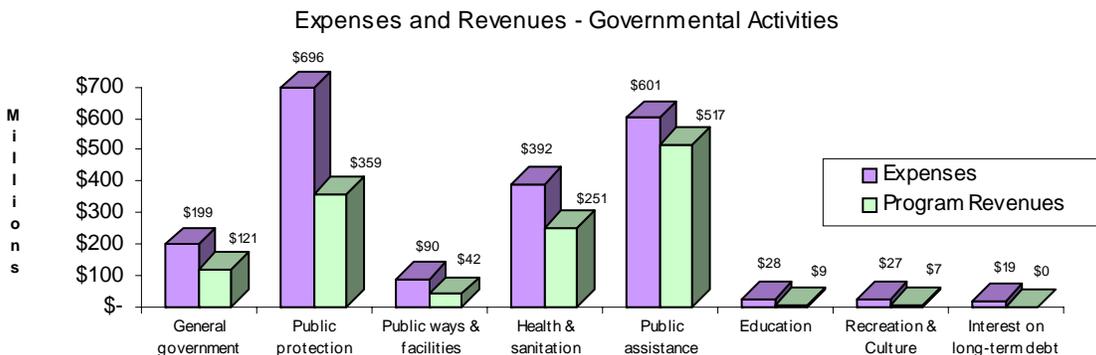


The County’s net assets increased by \$83.6 million or 4.6 percent for the year. This change in net assets is explained below in the context of the County’s governmental and business-type activities.

Governmental activities

The governmental activities decreased the County’s net assets by \$47.7 million. Revenues exceeded expenses by \$227.2 million. Net transfers of \$274.9 million to the business-type activities fully offset these excess revenues and have contributed to 100.0 percent of the decrease in net assets.

As an arm of the state government, the County provides various mandated services, such as public assistance, public health, and mental health. Revenues directly generated by or attributable to a specific governmental function are called program revenues. These include charges for services and restrictive (program specific) grants and contributions, both operating and capital. The following chart shows the County’s program revenues and expenses for the year. The general revenues—taxes (property, business, and sales), unrestricted grants, and investment income are not included in this chart. These general revenues are not be shown by program, but are available to support the program activities countywide.



Changes in the County's net assets from its governmental activities are explained in the context of changes in revenues and expenses:

Table 2—The Change in Net Assets (in thousands)

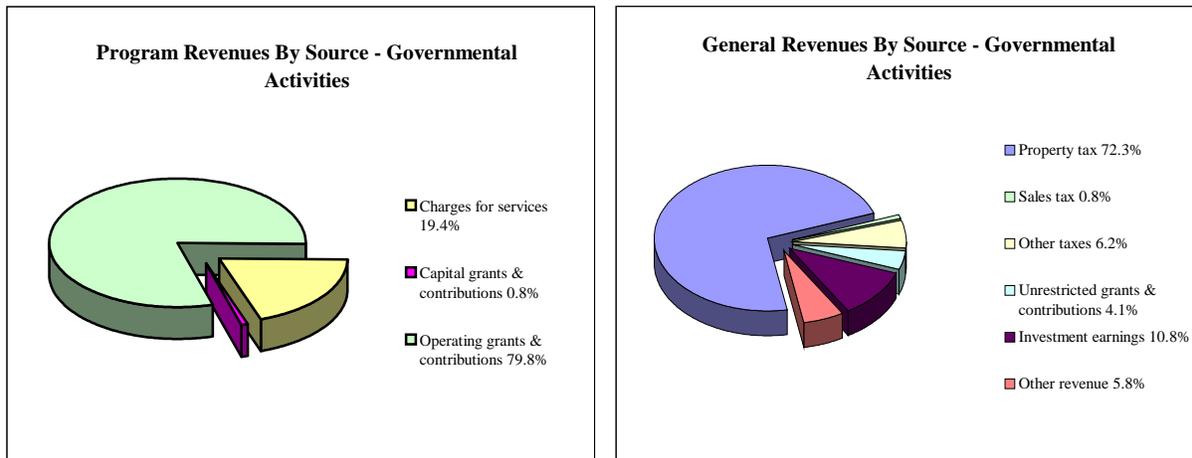
	Governmental Activities		Business-type Activities		Total		Total	
	2006	2007	2006	2007	2006	2007	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	\$ 232,449	\$ 253,859	\$ 534,091	\$ 647,725	\$ 766,540	\$ 901,584	\$ 135,044	17.6%
Operating grants and contributions	1,027,207	1,042,424	14,264	9,138	1,041,471	1,051,562	10,091	1.0%
Capital grants and contributions	6,181	10,203	15,865	9,230	22,046	19,433	(2,613)	(11.9%)
General revenues:								
Property taxes	639,557	702,776	-	-	639,557	702,776	63,219	9.9%
Sales and use taxes	123,623	7,437	9,664	10,056	133,287	17,493	(115,794)	(86.9%)
Other taxes	60,263	60,652	-	-	60,263	60,652	389	0.6%
Unrestricted grants and contributions	22,055	39,490	-	-	22,055	39,490	17,435	79.1%
Unrestricted investment income	53,136	105,118	2,740	10,008	55,876	115,126	59,250	106.0%
Gain on sale of capital assets	4,300	217	-	-	4,300	217	(4,083)	(95.0%)
Other revenue	51,173	56,353	-	-	51,173	56,353	5,180	10.1%
Total revenues	2,219,944	2,278,529	576,624	686,157	2,796,568	2,964,686	168,118	6.0%
Program expenses:								
General government	192,708	198,510	-	-	192,708	198,510	5,802	3.0%
Public protection	664,477	696,216	-	-	664,477	696,216	31,739	4.8%
Public ways and facilities	110,554	89,741	-	-	110,554	89,741	(20,813)	(18.8%)
Health and sanitation	369,511	392,171	-	-	369,511	392,171	22,660	6.1%
Public assistance	606,717	601,222	-	-	606,717	601,222	(5,495)	(0.9%)
Education	26,157	27,932	-	-	26,157	27,932	1,775	6.8%
Recreation and culture	25,105	26,681	-	-	25,105	26,681	1,576	6.3%
Interest on long-term liabilities	12,032	18,887	-	-	12,032	18,887	6,855	57.0%
SCVMC	-	-	756,638	823,409	756,638	823,409	66,771	8.8%
Airport	-	-	3,534	3,451	3,534	3,451	(83)	(2.3%)
Sanitation District	-	-	1,928	2,514	1,928	2,514	586	30.4%
Total expenses	2,007,261	2,051,360	762,100	829,374	2,769,361	2,880,734	111,373	4.0%
Excess (deficiency) before transfers	212,683	227,169	(185,476)	(143,217)	27,207	83,952	56,745	208.6%
Transfers	(239,000)	(274,867)	239,000	274,867	-	-	-	n/a
Increase (decrease) in net assets	(26,317)	(47,698)	53,524	131,650	27,207	83,952	56,745	208.6%
Net assets, beginning of year, as								
previously reported	1,802,831	1,776,514	(5,560)	49,208	1,797,271	1,825,722	28,451	1.6%
Prior period adjustment	-	-	1,244	(318)	1,244	(318)	(1,562)	(125.6%)
Net assets, beginning of year, as restated	1,802,831	1,776,514	(4,316)	48,890	1,798,515	1,825,404	26,889	1.5%
Net assets, end of year	\$ 1,776,514	\$ 1,728,816	\$ 49,208	\$ 180,540	\$ 1,825,722	\$ 1,909,356	\$ 83,634	4.6%

Revenues

The County's revenue for its governmental activities increased \$58.6 million or 2.6 percent to \$2.3 billion. The program revenues increased by \$40.6 million or 3.2 percent, while general revenues also increased by \$18.0 million or 1.9 percent. Over the past three years, the County's program revenues from its governmental activities have contributed about 57.3 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 42.7 percent of the costs.

Program revenues increased as demand for public protection and health related services increased and the cost of providing these services grew. The largest source of program revenues for the County's governmental activities is federal and state grants and contributions, both operating and capital. These revenues amount to about 80.6 percent of the County's program revenues, and about 46.2 percent of its total revenues. For the year, revenues from grants and contributions increased by \$19.2 million or 1.9 percent, while revenues from charges for services increased by \$21.4 million or 9.2 percent. Operating grants and contributions increased due to growth in revenues from health administration, homeland security and other public safety related programs, while capital grants and contributions increased due to more state funding for various roads, parks and recreation capital projects. Revenues from charges for services increased due to higher revenues from

licenses and permits and fines, forfeitures, and penalties. Increase in demand and cost of providing services also contributed to the growth in revenues.



The County’s general revenues from its governmental activities increased by \$18.0 million or 1.9 percent from the prior year. General revenues include taxes, investment earnings, unrestricted grants and contributions, and some miscellaneous revenues not directly related to governmental programs. General revenues support government programs by defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County’s second largest revenue source—grants and contributions being the largest. The County earned \$770.9 million in tax revenues (property tax, property tax in lieu of motor vehicle license fee, and sales tax) for the current year. This is approximately 79.3 percent of the general revenues, and 33.8 percent of the total current year revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability.

Property tax revenues increased by \$63.2 million which reflected 9.9 percent growth in real property assessed value. This increase included a \$29.8 million growth in property tax in-lieu of vehicle license fee largely due to the expiration of two-year property tax shift under ERAF III (\$17.2 million each year for the County). Unsecured business tax revenues raised \$1.9 million due to the improvement in business environment, while property transfer and supplemental assessment taxes fell due to declining real estate market. Sales tax revenues decreased by \$116.2 million as the Measure B program ended in March 2006. In FY2006, this program collected approximately \$119.1 million sales tax revenues.

Unrestricted grants and contributions increased \$17.4 million mainly due to a \$15.4 million local contribution received from San Jose Redevelopment Agency (RDA) delegated fund, which will be used for the Seismic Compliance and Modernization Program at SCVMC. The remaining increases were pass-through revenues from RDA.

Investment earnings increased by \$52.0 million. Growth in fair market value and higher interest rates and average daily cash balances increased the County’s commingled investment pool investment earnings by \$23.6 million. The commingled investment pool’s average quarterly earnings rate increased from 3.8 percent last year to 4.9 percent in the current year. The investment portfolio for the Retiree Healthcare Internal Service Fund earned \$50.1 million for the current year, an increase of \$28.4 million from last year due to market performance. This fund invests two-third of its available cash reserves in equity index funds, which continued to perform well. The S&P 500 index has increased by 20.6 percent from last year. The internal service funds are included in governmental activities in the government-wide financial statements.

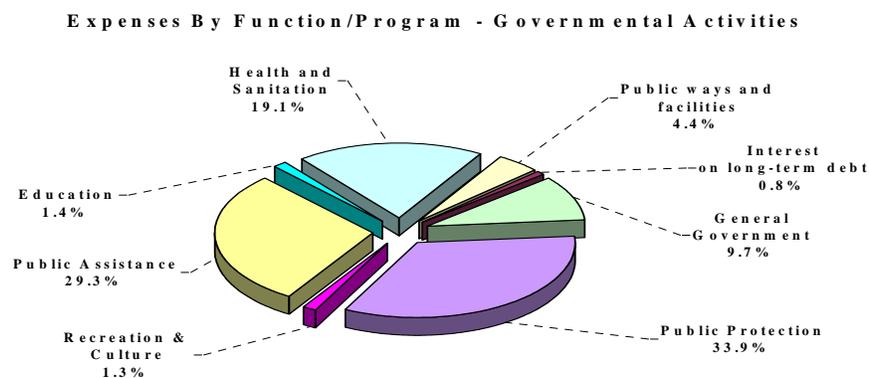
Expenses

Expenses for the governmental activities increased by \$44.1 million or 2.2 percent, and transfers to the business-type activities increased by \$35.9 million to \$274.9 million. With the exception of public ways and

facilities and public assistance, costs for all other categories of governmental activities were higher for the year. Primary reasons for changes in expenses and transfers are explained below:

- Overall payroll costs increased by 4.9 percent from the prior year primarily due to increasing health insurance and employee retirement contribution costs. The PERS rate for miscellaneous staff increased moderately from 11.7 percent to 11.9 percent, and for public safety staff rose from 25.2 percent to 25.8 percent. Health insurance rates rose by 11.6 percent, which increased healthcare costs by \$10.8 million for the existing employees and \$3.5 million for retirees. PERS costs rose by \$8.2 million, while the changes for workers' compensation expenses were insignificant. Pay increases and filling vacant positions contributed additional \$32.8 million or 4.0 percent from last year.
- General government expenses rose \$5.8 million or 3.0 percent. In addition to the increase in payroll related costs, expenses to fund emergency communication equipment upgrades, infrastructure improvements to the fairgrounds, and various information technology upgrade projects also contributed to the increases.
- Higher demand for health service programs and higher cost of supplies contributed to a \$22.7 million or 6.1 percent increases for health and sanitation costs.
- Higher payroll and benefit costs contributed to increased expenses for the County's public protection (\$31.7 million), and education and recreation (\$3.4 million) functions.
- Interest on long-term debt increased by \$6.9 million or 57.0 percent mainly from the new 2005 and 2006 Lease Revenue bonds.
- Public ways and facilities decreased by \$20.8 million or 18.8 percent due to the reduction in the number of capital projects funded through the Measure B Transportation Improvement Program, which ended in March 2006.
- Public assistance program costs decreased by \$5.5 million or 0.9 percent. The decreases were mainly due to a total of \$18.5 million decline in implementation costs for Calwin system and aids and services provided for foster care, severely emotional dependent, and various CalWorks related programs. These decreases were offset by increases in payroll related costs and expenses related to In-Home Services caseload growth and insurance premiums.
- Transfers increased by \$35.9 million to \$274.9 million. This included the transfer of \$15.4 million RDA delegated funds from the General Fund to SCVMC discussed earlier and a net \$43.1 million transfers between the General Capital Improvement Fund and SCVMC for capital construction projects related to the Valley Specialty Center and various valley health centers. These increases were offset by a \$22.6 million decrease in subsidy transfers from the General Fund to SCVMC for supporting its operations.

The following chart shows the County's expenses by functional category for the governmental activities.

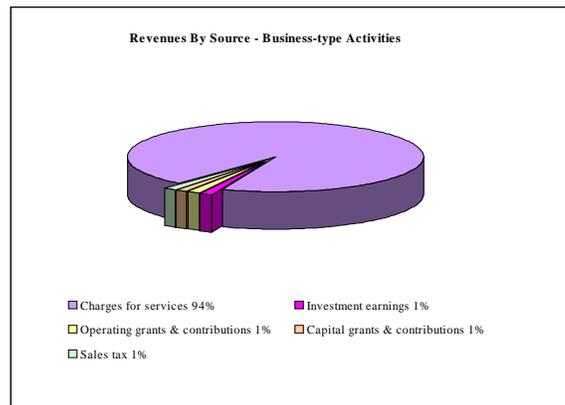
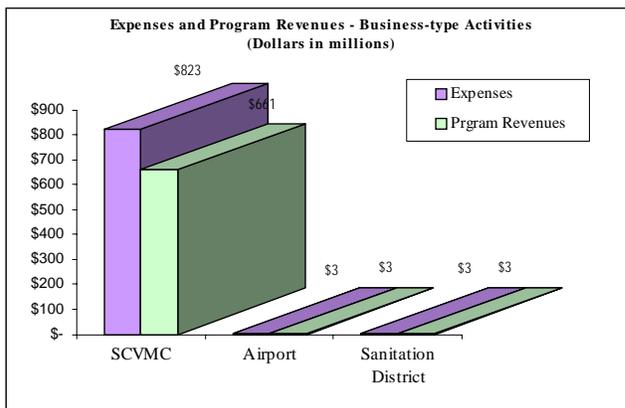


Business-type activities

Business-type activities increased the County's net assets by \$131.3 million. The business-type activities had a net operating deficit of \$143.2 million which was offset by transfer of operating subsidy and capital assets of \$274.9 million from the governmental activities.

The largest of the County’s business-type activities, SCVMC, had \$823.4 million in expenses and \$661.0 million in program revenues for the year. This is about 99.3 percent of the program revenues of all business-type activities. Its program revenues increased by \$102.4 million primarily due to increase in patient activity and changes of Federal Qualified Health Center requirements that caused an increase in the service charge rate. As a result, its charge for services increased by \$113.4 million, while operating grants and contributions revenues decreased by \$11.0 million. SCVMC’s expenses increased by \$66.8 million primarily due to increase in payroll costs, which was affected by the same factors as the governmental activities discussed earlier. Increase in medical supplies, insurance costs and patient activities also attributed to the increases. SCVMC consists of a) Valley Medical Center—a 574-bed licensed acute-care hospital, and clinics for outpatient and ambulatory services and b) Valley Health Plan—a licensed HMO with 62,000 clients.

The other enterprise operations—airport and sanitation districts—are very small in size and did not change much in the year. The first chart below shows expenses and revenues by each business activity, while the second chart shows revenues by source for the business activities.



FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Governmental funds

The focus of the County’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the County’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the General Fund, special revenue funds, capital project funds, debt service funds and a permanent fund.

At June 30, 2007, the County’s governmental funds reported total fund balances of \$815.4 million, a decrease of \$176.3 million or 17.8 percent from the prior year. Approximately 82.5 percent of the combined fund balances, \$673.0 million, constitutes the *unreserved fund balance*, which is available to meet the County’s current and future needs. The remainder of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed to: a) pay debt service - \$52.0 million; b) reflect inventories and other assets that are long-term in nature and thus do not represent available spendable resources - \$14.7 million; and c) liquidate contractual commitments of the period - \$75.6 million.

For its governmental funds, the County’s total revenues for the current fiscal year were \$2.2 billion—an increase of \$18.7 million or 0.9 percent over the last year. Total governmental fund expenditures increased by \$156.0 million or 7.3 percent to \$2.3 billion for the year. Primary reasons for these significant changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

The General Fund is the chief operating fund of the County. Its unreserved fund balance was \$434.2 million at June 30, 2007, while its total fund balance was \$461.2 million, a \$127.3 million decline from prior year. This was primarily due to the one-half percent Countywide sales tax for Measure B transportation improvement programs ended last March; sales tax revenues derived from the program declined significantly— total revenue reduced from \$124.3 million last year to \$21.3 million in this fiscal year, while projects spending only declined by \$18.8 million to \$119.2 million. As a result of this, the fund balance reduced \$97.9 million. The remaining \$29.4 million were mainly resulted from other General Fund departments' normal operations, which will be discussed in the revenues and expenditures section. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. The unreserved fund balance and the total fund balance represent 23.0 percent and 24.5 percent of the total General Fund expenditures, respectively.

The County's management designates (earmarks) unreserved fund balance to a particular function, project or activity. Fund balance may also be designated for long-term purposes. However, designated fund balance is available for appropriation at any time. Of the \$434.2 million General Fund unreserved fund balance, \$232.4 million or 53.5 percent is designated for future expenditures. The unreserved, undesignated fund balance for the General Fund at year-end was \$201.8 million. The fund balance designations are listed below:

Fund balance designated for:	Amount (Millions)
- Transportation improvement projects funded by Measure B (one-half percent Countywide sales tax) revenues	\$ 61.9
- Future operations of the Santa Clara Valley Medical Center	101.3
- Mental Health Services Act (Proposition 63)	14.2
- Litigation Reserve	6.6
- Various contingencies designated by the Board of Supervisors	48.2
- Environment Resources Agency projects	0.2
Total General Fund designated fund balance	<u>\$ 232.4</u>

General Fund revenues and expenditures for the year were both \$1.9 billion. While its revenues decreased by \$2.5 million or 0.1 percent for the year, its expenditures increased by \$55.4 million or 3.0 percent primarily due to payroll costs increases (\$48.5 million) for the reasons discussed earlier on the countywide expenses. The Fund's revenues by sources and expenditures by function as well as increases or decreases from the prior fiscal year are presented below:

Table 3—General Fund Revenue Classified by Source (in thousands)

Revenues by source	FY 2006		FY 2007		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 659,213	34.1%	\$ 596,235	30.9%	\$ (62,978)	(9.6%)
Licenses and permits	11,882	0.6%	12,451	0.7%	569	4.8%
Fines, forfeitures and penalties	38,321	2.0%	44,672	2.3%	6,351	16.6%
Interest and investment income	19,939	1.0%	37,444	1.9%	17,505	87.8%
Intergovernmental revenues	1,043,122	54.0%	1,046,635	54.3%	3,513	0.3%
Charges for services	118,989	6.2%	131,784	6.8%	12,795	10.8%
Other	39,800	2.1%	59,536	3.1%	19,736	49.6%
Total	<u>\$ 1,931,266</u>	<u>100.0%</u>	<u>\$ 1,928,757</u>	<u>100.0%</u>	<u>\$ (2,509)</u>	<u>(0.1%)</u>

Table 4—General Fund Expenditures by Function (in thousands)

Expenditures by function	FY 2006		FY 2007		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 156,327	8.5%	\$ 171,175	9.1%	\$ 14,848	9.5%
Public protection	583,935	31.9%	614,531	32.6%	30,596	5.2%
Public ways and facilities	59,661	3.3%	40,584	2.2%	(19,077)	(32.0%)
Health and sanitation	346,283	18.9%	372,695	19.8%	26,412	7.6%
Public assistance	599,749	32.8%	595,560	31.6%	(4,189)	(0.7%)
Capital Outlay	-	0.0%	2,866	0.2%	2,866	100.0%
Debt service						
Principal retirement	73,974	4.1%	78,794	4.1%	4,820	6.5%
Interest and fiscal charges	8,502	0.5%	7,637	0.4%	(865)	(10.2%)
Totals	<u>\$ 1,828,431</u>	<u>100.0%</u>	<u>1,883,842</u>	<u>100.0%</u>	<u>\$ 55,411</u>	<u>3.0%</u>

General Fund revenues from all sources, except for tax revenues, increased for the year. Its expenditures on all governmental functions, except for public ways and facilities and public assistance, also increased. Combined debt service expenditures (principal and interest) increased due to scheduled principal and interest payments on outstanding bonds.

Our discussion on the County's governmental activities identified key reasons for changes in its revenues and expenses that also help explain significant changes in the General Fund because it is the chief operating fund of the County, and its revenues and expenditures respectively cover 87.9 percent and 82.2 percent of the County's total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated in our earlier discussion on the countywide revenues and expenses. This section will elaborate only those points that were not included in our earlier discussion.

- Tax revenues declined by \$63.0 million or 9.6 percent. This was mainly due to a \$116.2 million decrease in Measure B sale tax revenues. Pertinent reasons for the changes were explained in earlier discussion on the government-wide governmental activities. The reduction was mitigated by \$53.2 million increases in both secured and unsecured business property tax revenues due to increases in property values and improved economy.
- Fine, forfeiture and penalties increased by \$6.4 million or 16.6 percent mainly from two energy settlements for \$2.1 million and \$2.0 million one time funding received from the 1.5% surcharge on parking citation fines reserved in Justice Facility Temporary Construction Fund for the operation and maintenance of Criminal Justice building. The remaining \$2.3 million consisted of increases from various fines and penalties revenue sources.
- Interest and investment income rose by \$17.5 million or 87.8 percent mainly due to GASB No. 31 adjustment to increase the fair market value of investments (\$12.2 million) and higher interest rates and average daily cash balances. The commingled investment pool's average quarterly earnings rate increased from 3.8 percent last year to 4.9 percent in the current year. Average daily cash balance increased 19.0 percent from \$623.0 million to \$642.0 million.
- Net revenues from intergovernmental sources increased by \$3.5 million or 0.3 percent. Federal and state grants for public assistance programs fell \$18.3 million. The decline in federal and state funding for public assistance was mainly due to prior year's implementation one-time reimbursements from the State related to the new Calwin system. Reduction in caseloads for foster care, CalWorks for legal immigrants, and various other categorical aids programs also contributed to the decreases. Public safety sales tax decreased by \$1.1 million, while Motor Vehicle in Lieu tax (MVIL) increased by \$2.2 million, receipts of Proposition 63 (Mental Health Services Act) assessments delegated by the State for mental health services for \$14.2 million, and SB90 state mandated program revenues increased by \$7.1 million as the state resumed payments for prior year claims.

- Revenues from charges for services increased by \$12.8 million or 10.8 percent. Higher demand for County services and rising cost of providing services in areas of property tax assessment and tax collection, prisoner housing, court security provided by Sheriff's Department, and election services contributed a total \$11.4 million increases. Booking fees and cost recovery from legislation of SB 940 added another \$2.1 million increases. These increases were offset by a \$0.8 million decrease in document recording fee caused by slower real estate market and fewer property sales.
- Other revenues increased by \$19.7 million consisted mainly from the San Jose Redevelopment Agency (RDA) contributions of delegated and pass-through funds, \$15.4 million and \$2.1 million, respectively. The remaining increases included tobacco settlement revenues (\$0.8 million), foundation grant for social service and health programs (\$0.7 million), and various other miscellaneous revenues.
- Pertinent reasons for changes in General Fund expenditures are not different from what was explained in earlier discussion on the countywide governmental programs and activities.
- Operating subsidy transfers to the SCVMC decreased by \$22.6 million due to the receipt of Medi-Cal waiver settlement and increase in revenues from patient services, In summary SCVMC required less support from the General Fund.

The fund balances for the non-major governmental funds declined by \$49.1 million or 12.2 percent to \$354.2 million. This change was primarily due to the following: a \$2.7 million increase in the fund balance of the Roads Fund, due to an increase in state funding for traffic congestion relief programs; increases in the fund balances of the Vector Control Fund (\$2.2 million), Fire Districts Fund (\$3.1 million), and the Parks Acquisition and Development Funds (\$9.9 million), due to increases in property tax revenues and investment earnings; a decrease of \$14.3 million in the fund balance of the Measure B Proceeds Fund due to a transfer out to the General Fund for debt service payments, and decreases in the fund balances of Multiple Facilities Construction Fund (\$42.2 million) and Morgan Hill Courthouse Construction Fund (\$12.4 million), mainly due to transfers out to the General Capital Improvement Fund to fund the Morgan Hill Courthouse, crime lab, court seismic, and various other capital projects.

The Tobacco Securitization Fund is a new fund which consists of Santa Clara County Tobacco Securitization Corporation (Corporation) and Silicon Valley Tobacco Securitization Authority (JPA). These two entities are blended component units of the County and were established to obtain funding for the Seismic Compliance and Modernization Projects (established by SB 1953 at SCVMC). This new fund accounted for the proceeds of \$102.0 million bonds issued by the JPA and the related \$100.0 million transfer from the Corporation to the General Fund for purchase of the County's FY 2026 to 2056 tobacco settlement revenues.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of June 30, 2007, the County's net assets in its enterprise funds were \$185.6 million. The investment in capital assets net of depreciation and related debt was \$42.5 million. The restricted net assets of the enterprise funds were \$119.3 million. These assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net assets as of June 30, 2007 had a balance of \$23.8 million.

The net assets of the County's enterprise funds increased by \$130.9 million for the year. Primary reasons for change in net assets are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 99.3 percent of the total revenues and expenses for all enterprise funds. The other two enterprise funds—Airport and Sanitation District—are very small in comparison.

Net assets for SCVMC increased by \$131.5 million due to a \$100.0 million transfer of bond proceeds from the County's issuance of the Tobacco Securitization Asset-Backed Bonds. Its unrestricted net assets were \$16.0 million. Operating revenues increased by \$108.2 million or 19.9 percent and expenses rose by \$65.2 million or 8.9 percent. The net transfers were \$274.9 million for the year. The primary reason for increased expenses were higher salary and benefit costs and increased cost of medical supplies and services due to rising prices and

of funding received from the General Fund for the seismic and modernization projects that was discussed earlier. The net assets invested in capital assets, net of related debt were \$27.7 million. There were no significant changes to the net assets for the airport and sanitation districts during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County’s final budget appropriations for FY2007 were \$2.6 billion, which is \$326.2 million or 14.2 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. The Board approves all supplemental appropriations. Difference between the original and final budgets represents supplemental appropriations approved by the Board for various new grants received by the County, or to pay for increased service level that was not expected when the original budget was approved.

General fund revenue and expenditure were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by \$41.9 million or 1.9 percent. While taxes, licenses and permits, interest and investment income, inter-fund transfers and other revenues surpassed their estimates, all other revenue sources came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$286.1 million or 10.9 percent for the year. The majority of these cost savings resulted from the following unspent appropriations a) \$131.9 million in contingency reserves; b) \$24.9 million in salaries and benefits costs due to elimination of vacant positions; c) \$109.8 million in services and supplies costs for government programs – general government, public assistance, health and sanitation, and Measure B programs; d) \$18.2 million in inter-fund transfers primarily from Measure B to Roads Department; and e) \$1.4 million in capital assets and debt service payments.

The General Fund budgetary comparison schedule starts on page 90 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

As shown in Table 5 below, the County’s investment in capital assets (net of accumulated depreciation) as of June 30, 2007 was \$1.3 billion. This includes investment in land, buildings and improvements, leasehold improvements, infrastructure, equipment and vehicles, and construction in progress.

TABLE 5-Capital Assets (Net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007		
Land	\$ 177,953	\$ 187,062	\$ 6,310	\$ 6,310	\$ 184,263	\$ 193,372	\$ 9,109	4.9%
Buildings & improvements	302,167	294,439	196,980	201,017	499,147	495,456	(3,691)	(0.7%)
Infrastructure	126,420	130,556	-	-	126,420	130,556	4,136	3.3%
Equipment and vehicles	37,659	37,812	22,102	23,214	59,761	61,026	1,265	2.1%
Leasehold improvements	-	-	1,087	985	1,087	985	(102)	(9.4%)
Construction in progress	141,189	216,158	101,376	175,844	242,565	392,002	149,437	61.6%
Total	\$ 785,388	\$ 866,027	\$ 327,855	\$ 407,370	\$ 1,113,243	\$ 1,273,397	\$ 160,154	14.4%

The County’s net capital assets increased \$160.2 million or 14.4 percent for the year. Net capital assets for the governmental activities increased by 10.3 percent, while the business-type activities’ net capital assets increased by 24.3 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County acquired \$200.5 million in new capital assets for its governmental activities, as follows:

- Land and building of \$4.2 million was purchased for Vector Control operation.

- Land and building of \$4.2 million was purchased for Vector Control operation.
- Equipment and vehicles – \$10.0 million was spent for equipment and vehicles; included specialized law enforcement vehicles; computer equipment and vehicles; automated materials handling system for the libraries; a voice capture system and logging unit for 911 Communication; hazardous duty robot, mobile field morgue, and freezer trailers for the Sheriff Department; and heavy duty rotary mowers and digital pay stations for Parks and Recreation. Expenditure also included communication and specialized kitchen equipment upgrades for the Department of Correction, portable X-ray unit for the Coroner’s Office, DNA robot for the Crime Lab, and high-speed mail processors for Registrar of Voters.
- Specialized equipment and vehicles for the Fire Departments was acquired for \$1.6 million. It consisted of fire engines, several fire hydrants and office equipment.
- Construction in progress activities of \$184.7 million were added for the year.
 - Capital improvement projects of \$159.5 million undertaken by the County Facilities and Fleet (FAF) for the continued construction of the Valley Specialty Center, various valley health centers, County Center, Morgan Hill Courthouse, the new crime lab and Fleet building; continued renovation of the juvenile and jail facilities, county business buildings, and parking lots; security system upgrades; and various small projects.
 - Roads projects of \$16.3 million consisted of bridge repairs and rehabilitation, pedestrian and bicycle routes improvements, signal synchronization projects, pavement management of Measure B programs, level of service improvement, and the County’s expressways improvements.
 - Parks projects of \$6.0 million included parks expansion, trail widening, picnic area and facility improvements at various county parks, and Deer Valley habitat restoration at the Joseph D. Grant Ranch County Park.
 - Tax Collector’s Office spent \$2.9 million in developing a Tax Collection and Apportionment System (TCAS), which when fully implemented will automate the tax collection and apportionment process.

Transfers of \$109.3 million construction-in-progress comprised various completed (\$21.9 million) and in progress (\$87.4 million) projects during the year. The completed projects included \$10.4 million in capitalized costs (\$6.7 million for land and \$3.7 million for building & improvements) of various FAF capital projects; \$8.4 million of infrastructure projects undertaken by the Roads Department on signal synchronization, County expressway improvements, level of service improvement programs, and various other infrastructure improvement projects; and \$3.1 million for Parks and Recreation on park facilities and infrastructure improvement related projects. The transferred in-progress projects undertaken by FAF were solely for SCVMC.

Retirement of \$4.6 million included vehicles (\$1.8 million), computer equipment (\$2.1 million), and other equipment (\$0.7 million). The retirement of other equipment consisted of office equipment, and homeland security equipment used by the Sheriff Department (e.g. hazardous duty robot system; air shelter; and multi-gas, radiology, and chemical detectors).

Business-type activities

Net capital assets for business-type activities increased by \$79.5 million for the year. The SCVMC construction in progress includes \$169.7 million for various buildings, building improvements, and equipment at SCVMC, and \$6.1 million for the security fencing and facility improvements at South County Airport, Palo Alto Airport and Reid Hillview Airport.

Commitment of Resources for Construction Work in Progress

At June 30, 2007, the County had committed \$56.5 million of its net assets from the governmental activities and \$63.0 million of its net assets from the business-type activities for various uncompleted capital projects included in the construction in progress.

Additional information on the County’s capital assets can be found in Note 6 on page 56 of this report.

Long-term debt

The County's long-term outstanding debt as of June 30, 2007 was \$929.1 million as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental		Business-type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	Change	Change
Lease revenue bonds (net of discounts and deferred loss on refunding)	\$ 288,130	\$ 281,902	\$ 543,387	\$ 533,533	\$ 831,517	\$ 815,435	\$ (16,082)	(1.9%)
Special obligation bonds (net of premium)	71,626	-	-	-	71,626	-	(71,626)	(100.0%)
Certificates of participation	550	4,872	-	-	550	4,872	4,322	785.8%
Capital lease obligations	5,288	4,167	-	-	5,288	4,167	(1,121)	(21.2%)
Capital appreciation bonds	-	104,654	-	-	-	104,654	104,654	100.0%
Total	\$ 365,594	\$ 395,595	\$ 543,387	\$ 533,533	\$ 908,981	\$ 929,128	\$ 20,147	2.2%

The County's long-term debt, net of debt service principal pay-off of \$95.8 million for the year, increased \$20.1 million or 2.2 percent. The County issued three new bonds in the aggregate amount of \$111.6 million and entered into a new capital lease agreement in the amount of \$0.4 million.

In October 2006, the Santa Clara County Financing Authority (SCCFA) issued 2006 Lease Revenue bonds in the amount of \$5.1 million. These bond proceeds were to provide additional funding for the renovation of a two story steel frame office building used by the Housing Authority as its main administrative facility.

In November 2006, the Santa Clara County Vector Control District issued 2006 Certificates of Participation Bonds Series TT in the amount of \$4.5 million to finance the acquisition of a new facility for Vector Control operations.

In January 2007, the Silicon Valley Tobacco Securitization Authority (JPA) issued 2007 Capital Appreciation Bonds Series A (\$68.5 million), Series B (\$4.4 million), Series C (\$20.2 million) and Series D (\$8.9 million). The bond proceeds were used to finance a loan to the Santa Clara County Tobacco Securitization Corporation (Corporation), which in turn used the loan proceeds to purchase the County's future tobacco settlement revenues. Starting in June 2026, the tobacco settlement revenues allocated to the County will be collected by the Corporation and paid to JPA for the debt service payments. In FY2007, the County accrued \$2.7 million of accreted interest on the capital appreciation bonds.

In March 2007, the South Santa Clara County Fire District entered into a lease-purchase agreement with Oshkosh Capital in the amount of \$0.4 million to finance the acquisition of a new fire engine.

For its outstanding revenue bonds and certificates of participation, the County has maintained an AA rating from the Standard & Poors (S&P), and an Aa3 rating from the Moody's Investors Service. S&P has also maintained the County's general obligation bond rating to AA+ and Moody's rating Aa2. This combination of S&P and Moody's ratings are the highest rating any large California County has ever achieved since Proposition 13 was passed in 1978. The County's TRANS ratings are SP-1+ from Standard & Poors and MIG 1 from Moody's. Each rating is the highest awarded for short-term notes.

Additional information on the County's long-term debt can be found in Note 8 on page 61 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The local economic indicators for the Silicon Valley show some improvement, but the Valley's economy has not yet fully recovered from the economic trough of 2002. While some of the indicators show positive trends, the impact of the sub-prime loans on the housing market still remains unmeasured. The County continues to face increasingly difficult challenges with its budget. The following economic factors were considered in the County's FY2008 budget.

- The County's unemployment rate continues to improve and has remained below the State average for the second consecutive year. The unemployment rate was 4.7 percent in June 2007, compared to 5.0 percent a year ago and the State 5.2 percent in June 2007.
- Total labor force within the County's geographical areas, including San Benito County, grew by 12,800 jobs, or 1.4 percent between September 2006 and September 2007. The real per capita income (a measure of wealth creation), and the average wage (an indicator of job quality) increased by 1.0 percent to \$51,112, much higher than the national level of \$36,629 in 2006. The productivity per employee remains 2.5 times the national average.
- Home sales in the County have slowed as a result of increased volume of sub-prime loans. The housing inventory continues to grow. After four years of stagnant growth, the commercial and industrial market, on the other hand, has experienced a strong growth in the County during the year.
- Venture capital investment, a leading indicator of innovation, increased more than 27% since June 2005. The investments were concentrated in areas of clean technology, energy generation and storage, environmental, medical devices and equipment, and media entertainment.
- The Countywide taxable retail sales increased 4.9 percent to \$29.1 billion in FY2007, slightly higher than the statewide average growth rate of 3.0 percent. Public safety sales tax revenue decreased by \$1.2 million, due to a 0.1 percent decline in the County's share of the statewide sales tax collections. The County assumes public safety sales tax revenue a moderate increase for its FY2008 budget.
- Research and development (R&D) and office space occupancy rates—leading indicators of economic activity—have showed some significant improvements as the vacancy rate for R&D space has declined to 17.6 percent in June 2007 versus 20.2 percent a year ago. The office space vacancy rate was 13.4 percent in June 2007, and the vacancy rate for the warehouse space fell from 17.0 percent in 2006 to 9.3 percent in June 2007.
- Major sources of revenue generated from the performance of the local economy are:
 - Assessed values for real property increased by 9.7 percent and the unsecured personal property values increased by 3.2 percent in FY2007. These included the growth of \$32.5 million in secured property tax and \$1.9 million in unsecured property tax revenues. Property transfer and supplemental tax revenues decreased by \$11.1 million due to a sluggish housing market. The FY2008 budget assumes an 8.5 percent increase in secured property assessed values, which corresponds to an increase of \$33.0 million in property tax revenues.
- The FY2008 Countywide budget of \$4.2 billion included over \$227.2 million of deficit reduction solutions, in addition to the \$802.7 million deficit solutions the County has already implemented since FY 2003. The FY2008 deficit reduction solutions included a \$145.8 million of ongoing service reductions within operating departments, fee increases in numerous service departments, issuance of Pension Obligation Bonds, prepayment of the County's PERS contributions, a 911 fee for unincorporated area, and the Medicare Part D revenue.
- The FY2008 budget sets aside \$87.7 million in contingency and other reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw downs become necessary.
- Activity at SCVMC remains high with an average daily census of 363.1 or 2.8 percent above budget, and outpatient visits of 649,237 or 2.3 percent above budget. Outpatient visits are 2.7 percent higher than last fiscal year. Strong activity and an improving payer mix have allowed the SCVMC's enterprise funds to

operate within their budget plan, including use of the General Fund subsidy. The results of operations for the remainder of the fiscal year will be in large part determined by the health of other hospitals in the region, economic recovery, changes in Federal reimbursement regulations, and State budget decisions. The FY2008 budget includes General Fund subsidy of \$241.6 million to SCVMC, which is comprised of three basic elements: pass-through revenues, un-reimbursed County services (e.g. medical care for inmates and employee physicals), and the General Fund grant.

As of June 30, 2007, the unreserved fund balance in the General Fund was \$434.2 million. Of this amount, \$232.4 million is designated but available for appropriation. The proposed and final budgets were adopted prior to July 1 of the new fiscal year.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County's Finance Agency, Controller-Treasurer Department, 70 West Hedding Street, 2nd Floor, East Wing, San Jose, CA 95110. This entire report is also available online at www.sccgov.org.

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COUNTY OF SANTA CLARA

Statement of Net Assets

June 30, 2007

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets:				
Cash and investments	\$ 1,246,267	\$ 28,810	\$ 1,275,077	\$ 118,903
Receivables, net of allowance for uncollectibles	97,067	101,465	198,532	3,853
Internal balances	16,824	(16,824)	-	-
Due from other governmental agencies	283,529	32,412	315,941	12,244
Due from related parties	-	-	-	3,136
Receivable from component unit	8,545	-	8,545	-
Inventories	5,066	15,117	20,183	24
Other assets	16,448	9,359	25,807	4,386
Restricted cash and investments	54,979	266,980	321,959	6,236
Capital assets:				
Nondepreciable	403,220	182,154	585,374	24,365
Depreciable, net of accumulated depreciation	462,807	225,216	688,023	35,729
Total assets	<u>2,594,752</u>	<u>844,689</u>	<u>3,439,441</u>	<u>208,876</u>
Liabilities:				
Accounts payable	98,172	16,668	114,840	8,988
Accrued salaries and benefits	45,753	22,355	68,108	206
Accrued liabilities	40,379	6,041	46,420	78
Estimated third-party payer settlements	-	7,180	7,180	-
Due to others	-	-	-	1,999
Due to other governmental agencies	12,791	13,405	26,196	355
Unearned revenue	18,438	79	18,517	1,608
Other liabilities	-	-	-	3,133
Payable to primary government	-	-	-	8,545
Noncurrent liabilities:				
Due within one year	60,971	20,603	81,574	774
Due in more than one year	589,432	577,818	1,167,250	28,045
Total liabilities	<u>865,936</u>	<u>664,149</u>	<u>1,530,085</u>	<u>53,731</u>
Net assets:				
Invested in capital assets, net of related debt	673,075	42,466	715,541	33,674
Restricted for:				
Capital facilities	-	115,383	115,383	-
Debt service	11,030	3,962	14,992	-
Housing programs	41,817	-	41,817	-
Roads	29,060	-	29,060	-
Other purposes	24,131	-	24,131	89,391
Unrestricted	949,703	18,729	968,432	32,080
Total net assets	<u>\$ 1,728,816</u>	<u>\$ 180,540</u>	<u>\$ 1,909,356</u>	<u>\$ 155,145</u>

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
\$ (77,855)	\$ -	\$ (77,855)	\$ -	General government
(337,317)	-	(337,317)	-	Public protection
(47,580)	-	(47,580)	-	Public ways and facilities
(140,829)	-	(140,829)	-	Health and sanitation
(83,881)	-	(83,881)	-	Public assistance
(18,550)	-	(18,550)	-	Education
(19,975)	-	(19,975)	-	Recreation and culture
(18,887)	-	(18,887)	-	Interest on long-term liabilities
<u>(744,874)</u>	<u>-</u>	<u>(744,874)</u>	<u>-</u>	Total governmental activities
				Business-type activities:
-	(162,382)	(162,382)	-	SCVMC
-	(268)	(268)	-	Airport
-	(631)	(631)	-	Sanitation District
<u>-</u>	<u>(163,281)</u>	<u>(163,281)</u>	<u>-</u>	Total business-type activities
<u>(744,874)</u>	<u>(163,281)</u>	<u>(908,155)</u>	<u>-</u>	Total primary government
-	-	-	9,559	Component units
				General revenues:
702,776	-	702,776	-	Property taxes
7,437	10,056	17,493	-	Sales and use taxes
424	-	424	-	Other taxes
60,228	-	60,228	-	Unrestricted motor vehicle in lieu of taxes
39,490	-	39,490	-	Grants/contributions not restricted to specific programs
105,118	10,008	115,126	5,660	Investment income
217	-	217	-	Gain on sale of capital assets
56,353	-	56,353	699	Other
<u>(274,867)</u>	<u>274,867</u>	<u>-</u>	<u>-</u>	
<u>697,176</u>	<u>294,931</u>	<u>992,107</u>	<u>6,359</u>	Transfers
<u>(47,698)</u>	<u>131,650</u>	<u>83,952</u>	<u>15,918</u>	Total general revenues and transfers
1,776,514	49,208	1,825,722	139,227	Change in net assets
-	(318)	(318)	-	Net assets, beginning of year, as previously reported
<u>1,776,514</u>	<u>48,890</u>	<u>1,825,404</u>	<u>139,227</u>	Prior period adjustment
<u>\$ 1,728,816</u>	<u>\$ 180,540</u>	<u>\$ 1,909,356</u>	<u>\$ 155,145</u>	Net assets, beginning of year, as restated
				Net assets, end of year

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Balance Sheet
Governmental Funds

June 30, 2007
(In thousands)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 432,982	\$ 330,822	\$ 763,804
Restricted with fiscal agents	-	13,497	13,497
Other restricted	55	40,993	41,048
Receivables:			
Property taxes	5,683	-	5,683
Other, net of allowance for uncollectibles	50,445	34,319	84,764
Due from other funds	2,329	25,648	27,977
Due from other governmental agencies	273,861	9,179	283,040
Inventories	3,527	536	4,063
Other assets	10,577	46	10,623
Total assets	<u>\$ 779,459</u>	<u>\$ 455,040</u>	<u>\$ 1,234,499</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 70,761	\$ 24,212	\$ 94,973
Accrued salaries and benefits	38,846	5,720	44,566
Other accrued liabilities	27,112	11,962	39,074
Due to other funds	740	27,229	27,969
Due to other governmental agencies	10,814	644	11,458
Advances from other funds	-	1,375	1,375
Deferred revenue	169,959	29,725	199,684
Total liabilities	<u>318,232</u>	<u>100,867</u>	<u>419,099</u>
Fund balances:			
Reserved for:			
Encumbrances	12,908	62,696	75,604
Inventories and other assets	14,104	582	14,686
Debt service	-	52,105	52,105
Unreserved, reported in:			
General fund:			
Designated	232,391	-	232,391
Undesignated	201,824	-	201,824
Special revenue funds	-	121,642	121,642
Capital projects funds	-	117,093	117,093
Permanent fund	-	55	55
Total fund balances	<u>461,227</u>	<u>354,173</u>	<u>815,400</u>
Total liabilities and fund balances	<u>\$ 779,459</u>	<u>\$ 455,040</u>	<u>\$ 1,234,499</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets - Governmental Activities

June 30, 2007
(In thousands)

Fund balances - total governmental funds (page 24)	\$	815,400
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		859,887
Bond issuance costs are expended in the governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		4,395
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		181,262
Long-term assets with matching long term liabilities, including receivables from related parties, are not current financial resources and therefore are not reported in the governmental funds.		8,545
Internal service funds are used by management to charge the costs of management of information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, employee benefits and retiree healthcare to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.		404,835
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable	(391,428)	
Accrued vacation and sick leave	(113,652)	
Capital lease obligations	(2,611)	
Accrued interest payable	(1,305)	
Arbitrage liabilities	(1,291)	
Net pension obligation	(28,621)	
Accrued litigation liability	(6,600)	
		<u>(545,508)</u>
Net assets - governmental activities (page 21)	\$	<u><u>1,728,816</u></u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2007

(In thousands)

	General Fund	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 596,235	\$ 117,126	\$ 713,361
Licenses and permits	12,451	13,146	25,597
Fines, forfeitures, and penalties	44,672	9,202	53,874
Interest and investment income	37,444	20,536	57,980
Intergovernmental revenues	1,046,635	63,799	1,110,434
Charges for services	131,784	35,491	167,275
Other revenue	59,536	5,222	64,758
	<u>1,928,757</u>	<u>264,522</u>	<u>2,193,279</u>
Expenditures:			
Current:			
General government	171,175	61	171,236
Public protection	614,531	81,040	695,571
Public ways and facilities	40,584	48,352	88,936
Health and sanitation	372,695	23,665	396,360
Public assistance	595,560	5,654	601,214
Education	-	30,827	30,827
Recreation	-	26,629	26,629
Capital outlay	2,866	175,352	178,218
Debt service:			
Principal retirement	78,794	4,229	83,023
Interest and fiscal charges	7,637	8,915	16,552
Cost of issuance	-	2,112	2,112
	<u>1,883,842</u>	<u>406,836</u>	<u>2,290,678</u>
Excess (deficiency) of revenues over (under) expenditures	<u>44,915</u>	<u>(142,314)</u>	<u>(97,399)</u>
Other financing sources (uses):			
Proceeds from sale of capital assets	4,000	982	4,982
Capital lease financing	-	425	425
Bonds issuance	-	106,525	106,525
Bond premium	-	181	181
Transfers in	264,809	225,981	490,790
Transfers out	(441,010)	(240,836)	(681,846)
	<u>(172,201)</u>	<u>93,258</u>	<u>(78,943)</u>
Net change in fund balances	<u>(127,286)</u>	<u>(49,056)</u>	<u>(176,342)</u>
Fund balances, beginning of year	588,513	403,229	991,742
Fund balances, end of year	<u>\$ 461,227</u>	<u>\$ 354,173</u>	<u>\$ 815,400</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Government-wide
Statement of Activities - Governmental Activities

For the Fiscal Year Ended June 30, 2007
(In thousands)

Net change in fund balances - total governmental funds (page 26)		\$ (176,342)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$ 197,330	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(765)	
Transfer of capital assets to business-type activities	(87,370)	
Less current year depreciation	<u>(29,274)</u>	79,921
Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
Bond issuance costs	2,112	
Amortization of bond issuance costs	<u>(155)</u>	1,957
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		11,835
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net assets in the statement of activities.		(4,065)
Issuance of bonds and capital leases financing are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance and capital leases financing increase long-term liabilities in the statement of net assets and do not affect the statement of activities.		(107,131)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments:		
Lease revenue bonds	11,283	
Special obligation bonds	71,395	
Certificates of participation	345	
Capital leases	<u>264</u>	83,287
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of bond premium	310	
Change in accrued interest payable	1,270	
Change in accreted interest	(2,624)	
Change in arbitrage liabilities	(1,291)	
Change in net pension obligation	(2,060)	
Change in accrued litigation liability	3,400	
Change in long-term compensated absences	<u>(6,287)</u>	(7,282)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.		<u>70,122</u>
Change in net assets of governmental activities (page 23)		<u><u>\$ (47,698)</u></u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fund Net Assets

Proprietary Funds

June 30, 2007

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	SCVMC	Other	Total	Internal Service Funds
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	\$ 18,961	\$ 9,849	\$ 28,810	\$ 482,463
Restricted with fiscal agent	-	859	859	-
Other restricted	266,121	-	266,121	434
Receivables:				
Patient accounts receivable, net of estimated uncollectibles	97,756	-	97,756	-
Other	3,548	161	3,709	6,620
Due from other funds	2,942	-	2,942	13,122
Due from other governmental agencies	32,407	5	32,412	489
Inventories	15,117	-	15,117	1,003
Prepaid rent/insurance	3,452	-	3,452	1,430
Total current assets	<u>440,304</u>	<u>10,874</u>	<u>451,178</u>	<u>505,561</u>
Noncurrent assets:				
Other assets	5,711	196	5,907	-
Advances to other funds	1,375	-	1,375	-
Capital assets:				
Nondepreciable	172,586	9,568	182,154	-
Depreciable, net of accumulated depreciator	214,845	10,371	225,216	6,140
Total noncurrent assets	<u>394,517</u>	<u>20,135</u>	<u>414,652</u>	<u>6,140</u>
Total assets	<u>834,821</u>	<u>31,009</u>	<u>865,830</u>	<u>511,701</u>
Liabilities:				
Current liabilities:				
Accounts payable	14,921	1,747	16,668	3,199
Accrued salaries and benefits	22,306	49	22,355	1,187
Other accrued liabilities	5,793	248	6,041	-
Due to other funds	16,072	-	16,072	-
Due to third-party payers	7,180	-	7,180	-
Insurance claims	-	-	-	33,066
Due to other governmental agencies	13,405	-	13,405	42
Unearned revenue	-	79	79	16
Current portion of net pension obligator	1,553	-	1,553	-
Current portion of accrued vacation and sick leave	8,472	6	8,478	342
Current portion of capital lease obligations	-	-	-	745
Current portion of bonds payable	10,308	264	10,572	-
Total current liabilities	<u>100,010</u>	<u>2,393</u>	<u>102,403</u>	<u>38,597</u>
Noncurrent liabilities:				
Long-term insurance claims	-	-	-	69,366
Noncurrent portion of net pension obligator	10,461	-	10,461	-
Noncurrent portion of accrued vacation and sick leave	44,303	93	44,396	3,161
Noncurrent portion of capital lease obligations	-	-	-	811
Noncurrent portion of bonds payable	517,371	5,590	522,961	-
Total noncurrent liabilities	<u>572,135</u>	<u>5,683</u>	<u>577,818</u>	<u>73,338</u>
Total liabilities	<u>672,145</u>	<u>8,076</u>	<u>680,221</u>	<u>111,935</u>
Net assets:				
Invested in capital assets, net of related debt	27,733	14,733	42,466	4,584
Restricted:				
Capital facilities	115,383	-	115,383	-
Debt service	3,564	398	3,962	-
Unrestricted	15,996	7,802	23,798	395,182
Total net assets	<u>\$ 162,676</u>	<u>\$ 22,933</u>	<u>185,609</u>	<u>\$ 399,766</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds			(5,069)	
Net assets of business-type activities			<u>\$ 180,540</u>	

The notes to the basic financial statements are an integral part of this statement

COUNTY OF SANTA CLARA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended June 30, 2007
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	SCVMC	Other	Total	Activities
				Internal
				Service Funds
Operating revenues:				
Charges for services	\$ 642,894	\$ 4,814	\$ 647,708	\$ 171,452
Other program revenues	9,138	-	9,138	-
Net operating revenues	<u>652,032</u>	<u>4,814</u>	<u>656,846</u>	<u>171,452</u>
Operating expenses:				
Salaries and benefits	565,551	1,387	566,938	30,398
Services and supplies	96,764	1,041	97,805	21,251
General and administrative	68,383	-	68,383	5,913
Professional services	15,668	648	16,316	1,005
Depreciation and amortization	22,915	615	23,530	2,363
Leases and rentals	6,448	-	6,448	972
Utilities	8,472	-	8,472	-
Insurance claims and premiums	10,333	18	10,351	98,255
Other	5,718	1,905	7,623	-
Total operating expenses	<u>800,252</u>	<u>5,614</u>	<u>805,866</u>	<u>160,157</u>
Operating income/(loss)	<u>(148,220)</u>	<u>(800)</u>	<u>(149,020)</u>	<u>11,295</u>
Nonoperating revenues (expenses):				
Taxes	10,056	-	10,056	-
Investment income	9,497	511	10,008	55,441
Interest expense	(17,638)	(277)	(17,915)	(103)
Loss on disposal of capital assets	(54)	-	(54)	55
Other, net	(5,974)	(29)	(6,003)	356
Total nonoperating revenues (expenses), net	<u>(4,113)</u>	<u>205</u>	<u>(3,908)</u>	<u>55,749</u>
Income (loss) before capital contributions and transfers	<u>(152,333)</u>	<u>(595)</u>	<u>(152,928)</u>	<u>67,044</u>
Capital contributions	8,995	235	9,230	-
Capital contributions transferred in from other County funds	202,753	-	202,753	-
Transfers in	260,778	-	260,778	3,559
Transfers out	(188,664)	-	(188,664)	-
Change in net assets	<u>131,529</u>	<u>(360)</u>	<u>131,169</u>	<u>70,603</u>
Net assets, beginning of year, as previously reported	31,147	23,611		329,163
Prior period adjustment	-	(318)		-
Net assets, beginning of year, as restated	<u>31,147</u>	<u>23,293</u>		<u>329,163</u>
Net assets, end of year	<u>\$ 162,676</u>	<u>\$ 22,933</u>		<u>\$ 399,766</u>
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			481	
Change in net assets of business-type activities			<u>\$ 131,650</u>	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Cash flows from operating activities:				
Cash receipts from customers and users	\$ 619,766	\$ 4,824	\$ 624,590	\$ 169,787
Cash paid to suppliers for goods and services	(217,143)	(3,722)	(220,865)	(28,962)
Cash paid to employees for services	(556,269)	(1,376)	(557,645)	(30,011)
Cash paid for judgments and claims	-	-	-	(99,870)
Other payments	(5,739)	(46)	(5,785)	-
Other receipts	-	17	17	356
Net cash provided by (used in) operating activities	<u>(159,385)</u>	<u>(303)</u>	<u>(159,688)</u>	<u>11,300</u>
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	9,411	-	9,411	-
Cash payments to other funds	(10,777)	-	(10,777)	(10,822)
Transfers in	260,778	-	260,778	3,559
Transfers out	(188,664)	-	(188,664)	-
Net cash provided by (used in) noncapital financing activities	<u>70,748</u>	<u>-</u>	<u>70,748</u>	<u>(7,263)</u>
Cash flows from capital and related financing activities:				
Repayment of capital leases	-	-	-	(1,283)
Principal paid on bonds	(10,943)	(240)	(11,183)	-
Interest paid	(25,751)	(276)	(26,027)	(103)
Acquisition of capital assets	(14,866)	(959)	(15,825)	(3,140)
Proceeds from sale of capital assets	-	-	-	114
Capital contributions received	127,549	235	127,784	-
Net cash used in capital and related financing activities	<u>75,989</u>	<u>(1,240)</u>	<u>74,749</u>	<u>(4,412)</u>
Cash flows from investing activities:				
Purchases of investments	-	-	-	(3,679)
Interest received	20,095	504	20,599	16,310
Net cash provided by investing activities	<u>20,095</u>	<u>504</u>	<u>20,599</u>	<u>12,631</u>
Net change in cash and cash equivalents	7,447	(1,039)	6,408	12,256
Cash and cash equivalents, beginning of year	249,130	11,747	260,877	215,546
Cash and cash equivalents, end of year	<u>\$ 256,577</u>	<u>\$ 10,708</u>	<u>\$ 267,285</u>	<u>\$ 227,802</u>
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	\$ 18,961	\$ 9,849	\$ 28,810	\$ 482,463
Restricted with fiscal agents	-	859	859	-
Other restricted	266,121	-	266,121	434
Less deposits and investments not meeting the definition of cash and cash equivalents	<u>(28,505)</u>	<u>-</u>	<u>(28,505)</u>	<u>(255,095)</u>
Total cash and cash equivalents	<u>\$ 256,577</u>	<u>\$ 10,708</u>	<u>\$ 267,285</u>	<u>\$ 227,802</u>

(Continued)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Reconciliation of operating income/(loss) to net cash provided by (used in) operating activities:				
Operating income/(loss)	\$ (148,220)	\$ (800)	\$ (149,020)	\$ 11,295
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,915	615	23,530	2,363
Provision for bad debts	21,581	-	21,581	-
Miscellaneous nonoperating revenues (expenses), net	(5,974)	(29)	(6,003)	356
Decrease (increase) in assets:				
Receivables	(38,500)	13	(38,487)	(1,173)
Due from other governmental agencies	(3,398)	2	(3,396)	13
Inventories	(1,337)	-	(1,337)	159
Prepaid rent/insurance	(1,428)	-	(1,428)	-
Other assets	352	7	359	(56)
Increase (decrease) in liabilities:				
Accounts payable	(3,275)	(69)	(3,344)	75
Accrued salaries and benefits	3,089	3	3,092	-
Other accrued liabilities	566	(48)	518	42
Due to third-party payers	(11,763)	-	(11,763)	-
Accrued vacation and sick leave	5,330	8	5,338	344
Net pension obligation	863	-	863	-
Insurance claims	-	-	-	(1,614)
Due to other governmental agencies	(186)	-	(186)	1
Unearned revenue	-	(5)	(5)	(505)
Net cash provided by (used in) operating activities	<u>\$ (159,385)</u>	<u>\$ (303)</u>	<u>\$ (159,688)</u>	<u>\$ 11,300</u>
Supplemental disclosure of noncash investing, capital and related financing activities:				
Noncash capital and related financing activities:				
Transfers of capital assets from the County's governmental activities	\$ 87,370	\$ -	\$ 87,370	\$ -
Capitalized interest expenses	9,529	-	9,529	-
Noncash investing activities:				
Capitalized interest revenue	(9,625)	-	(9,625)	-
Increase in rebatable arbitrage	2,365	-	2,365	-
Net change in fair value of investments not considered cash and cash equivalents	505	-	505	39,131

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2007

(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 2,196,167	\$ 52,070	\$ 26,999
Other restricted	5	-	4,440
Receivables:			
Property taxes	-	-	95,502
Interest	20,811	500	21,517
Other	-	1	227
Due from other agency funds	-	-	75,744
Other assets	-	57,258	2,469
Total assets	<u>2,216,983</u>	<u>109,829</u>	<u>\$ 226,898</u>
Liabilities:			
Accounts payable	-	49,381	\$ -
Due to other agency funds	-	-	75,744
Due to other governmental agencies	-	287	-
Deposits from others	-	57,278	-
Fiduciary liabilities	-	-	151,154
Total liabilities	<u>-</u>	<u>106,946</u>	<u>\$ 226,898</u>
Net assets:			
Net assets held in trust for investment pool participants/private-purpose trust	<u>\$ 2,216,983</u>	<u>\$ 2,883</u>	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	\$ 8,779,073	\$ 217
Interest and investment income	110,421	367
Total additions	8,889,494	584
Deductions:		
Distributions and administrative expenses	8,922,002	-
Change in net assets	(32,508)	584
Net assets held in trust, beginning of year	2,249,491	2,299
Net assets held in trust, end of year	\$ 2,216,983	\$ 2,883

The notes to the basic financial statements are an integral part of this statement.

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COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) *Description of the Reporting Entity*

The County of Santa Clara (the County), California (the State), was established on June 1, 1850. The County's powers are exercised through a Board of Supervisors, which is the governing body of the County. The Board is responsible for the legislative and executive control of the County. The County provides various services on a County-wide basis and certain services only to unincorporated areas. Services provided include law and justice, education, detention, social, health, hospital, fire protection, sanitation, road construction and maintenance, park and recreation facilities, elections and records, communications, planning, zoning, treasury, and tax collection.

The governmental reporting entity consists of the County (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The basic financial statements include both blended and discretely presented component units. The blended component units are, although legally separate entities, in substance part of the County's operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

For financial reporting purposes, the County's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the County's Board. The financial statements of the individual component units may be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2nd Floor, East Wing, San Jose, California 95110.

Blended Component Units

The County and the component units listed below have a financial and operational relationship which requires that they be blended into the County's financial statements. The Board of Supervisors serves as the governing board of the County's blended component units. In addition, the Santa Clara County Financing Authority, the Santa Clara County – El Camino Hospital District Hospital Facilities Authority, the Silicon Valley Tobacco Securitization Authority, and the Santa Clara County Tobacco Securitization Corporation provide services entirely or almost entirely to the County.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The following component units are blended in the County’s basic financial statements:

Component unit	Blended in the basic financial statements under the category of:
Santa Clara County Central Fire Protection District	Nonmajor governmental funds - all fire districts are reported together in a special revenue fund.
South Santa Clara County Fire District	
Los Altos Hills County Fire District	
Santa Clara County Vector Control District	Nonmajor governmental funds
County Sanitation Districts 2 - 3 of Santa Clara County	Sanitation District Enterprise Fund
Santa Clara County Financing Authority (SCCFA)	SCCFA is included in the financial statements for the Santa Clara Valley Medical Center (SCVMC) and debt service funds of the governmental funds.
Santa Clara County - El Camino Hospital District Hospital Facilities Authority	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net assets and the SCVMC.
Silicon Valley Tobacco Securitization Authority	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement
Santa Clara County Tobacco Securitization Corporation	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement

Discretely Presented Component Units

The FIRST 5 Santa Clara County was created on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (the Act). The Act became law in 1998 when California voters approved Proposition 10, authorizing the state to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. The board consists of nine members, three of whom are officers of the County, while the remaining six are appointed by the Santa Clara County Board of Supervisors. FIRST 5 is a discretely presented component unit as its governing body is not substantially the same as that of the County and FIRST 5 does not provide services entirely or almost entirely to the County. Complete financial statements for FIRST 5 can be obtained directly from its administrative office at 4000 Moorpark Avenue, Suite 200, San Jose, California 95117.

The Housing Authority of the County of Santa Clara (the Housing Authority) was established in 1967 by the Board of Supervisors. The purpose of the Housing Authority is to provide affordable housing to low-income families, elderly and handicapped in Santa Clara County. It accomplishes its objectives by providing management, administrative and educational services to tenants and landlords to facilitate the operation of the various federal and state pretax assistance programs. Most of the housing programs administered by the Housing Authority are funded by contributions from the U.S. Department of Housing and Urban Development (HUD).

The Board appoints a voting majority of the Housing Authority’s Board of Commissioners and can remove appointed members at will. The Housing Authority is presented as a discretely presented component unit of the County as the Housing Authority’s governing body is not substantially the same as that of the County and the Housing Authority does not provide services entirely or almost entirely to the County. The financial data included for the Authority represents the aggregated data of its business-type activities and its component units. The Housing Authority has formed eleven non-profit organizations and one for-profit corporation to further facilitate its goals. The Housing Authority’s government-wide statement of net assets presents the combined data of the component

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

units in a single column. The component units column includes information of some non-profit organizations that are on different year-ends of December 31, 2006 and May 31, 2007. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 100 Great Oaks Blvd., 2nd Floor, San Jose, California 95119.

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs, including fines and penalties and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes imposed by the County, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary 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 revenues of the County's enterprise and internal service funds are charges for customer services including: medical center charges for services, sanitation and airport fees, insurance charges, employee benefit, employee retirement healthcare, information services, vehicle and maintenance services and printing support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental and enterprise funds:

- *General Fund* is the general operating fund of the County. It accounts for all financial resources except those required to be accounted for in another fund.
- *SCVMC Enterprise Fund* accounts for hospital and clinic services provided to County residents. Revenues consist primarily of patient service fees. An annual operating subsidy is provided by the General Fund to supplement the program.

The County reports the following additional fund types:

- *Internal Service Funds* provide for information technology, vehicle and maintenance services provided to County departments, printing, employee benefits, employee retirement healthcare, liability claims against the County, unemployment claims filed against the County as well as workers' compensation claims for disability, medical and rehabilitation expenses and related costs associated with on-the-job injuries.
- *Investment Trust Funds* account for commingled pool assets held in trust for schools, and other special districts and other agencies which use the County treasury as their depository, as well as account for separate investments acquired for the Palo Alto Unified School District.
- *Private Purpose Trust Fund* is used to account for resources for conservatees managed by the public guardians and administrators. These resources are restricted to a specified purpose that benefits individuals.
- *Agency Funds* are custodial in nature and do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments and individuals. Included are funds for child support payments; bail money posted with municipal courts; employees' long-term disability and supplemental life insurance premiums; and apportioned taxes for other local governmental agencies.

(c) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements (excluding agency funds). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Governmental funds are reported using the current financial measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when “susceptible to accrual” (i.e., when they become both 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. Property tax revenues are recognized in the current year if they are collected within 60 days of year-end. For all other revenues, the County considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Revenues not considered available are recorded as deferred revenue. The County’s other primary revenue sources: investment income, intergovernmental revenues and charges for services have been treated as “susceptible to accrual” under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, and other revenue are not considered “susceptible to accrual” under the modified accrual basis and are recorded as revenues when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the business-type activities in the government-wide financial statements and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The County has elected not to follow subsequent private-sector guidance.

(d) *Federal, State, and Local Grant Funds*

Proprietary funds federal, state, and local grants are accounted for in accordance with the purpose for which the grants are intended. Approved grants for the acquisition of land, buildings, and equipment are reported as capital contributions and grants for operating assistance are recorded as nonoperating revenues in the year in which the grants are applicable and the related grant conditions are met.

(e) *County Commingled Investment Pools*

The County Treasurer manages common cash and investment pools for the County, school and community college districts, special districts, and other local public agencies. Investments made by the Treasurer are regulated by the California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee and the Board of Supervisors. Adherence to the statutes and policies is monitored by the County Board of Supervisors, the Treasury Oversight Committee, and the Internal Audit Division through monthly audits and reports.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The pool consists of cash and investments that are either unrestricted or legally restricted to certain trust, bond issue, and specific expenditure purposes. The pool is not registered with the SEC as an investment company. State law requires that the County and its public school districts invest with the County Treasury. These involuntary external members' shares comprise 65% of the pool.

Investments of the pool are stated at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2007, to support the value of shares in the pool.

The value of the participants' pool shares that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the participants' positions in the pool.

Other Investments

The County Treasurer oversees separate investments for most of the County's reserve, payment, and capital resources arising from the issuance of various construction and technology bonds. In addition, self-insurance trusts and benefit plans for the County and certain school districts own additional separate investments managed by the Treasurer. All of these investments are classified as either unrestricted or restricted for other purposes on the accompanying balance sheets and statement of net assets.

The Santa Clara County Financing Authority and the Santa Clara County - El Camino Hospital District Hospital Facilities Authority maintain restricted cash and investments in separate bank accounts.

Investments of the County Treasury are stated at fair value. The County Treasurer determines the fair value of these investments on a monthly basis, based on quoted market prices. Outside trustees provide monthly statements to report the fair value and pricing of the assets held by them, which are also based on quoted market prices.

Investment Income

Realized earnings are allocated quarterly to the commingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. A negative average cash balance results in negative earnings that are netted against interest income. Changes in fair value are included in investment income for financial statement reporting purposes.

The County follows legal or contractual provisions regarding the assignment of interest revenue to certain other funds. Interest on bond monies held in the nonmajor governmental funds have such arrangements. The assignment of other interest is based on management's discretion. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, interest revenue is reported in the fund in which it is earned. Subsequent assignments are reported as transfers.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(f) Statement of Cash Flows

For purposes of the accompanying statement of cash flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the original purchase to be cash equivalents. The majority of the proprietary funds' deposits in the County Treasurer's commingled pool is in substance, demand deposits and is, therefore, considered cash equivalents for purposes of the statement of cash flows.

(g) Inventories

Inventories are stated at cost (using the first-in, first-out method), which approximates market, and consist of expendable supplies that are reduced as consumed. Inventories reported in governmental funds are offset by a corresponding reservation of fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

(h) Loans Receivable

For the purpose of the fund financial statements, governmental expenditures relating to long-term loan receivables arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred revenue account. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

(i) Capital Assets

The County defines capital assets as assets with an initial, individual cost of more than \$150 for infrastructure and buildings and improvements and \$5 for equipment and vehicles with an estimated useful life in excess of one year. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary fund statements. Certain assets, for which actual historical costs are not available, have been valued using methods that approximate their historical costs. Depreciation of exhaustible capital assets is charged as an expense against the County's operations, over their estimated useful lives in the government-wide statements and proprietary fund statements.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Infrastructure	20 to 50 years
Buildings and improvements	5 to 50 years
Equipment and vehicles	3 to 30 years

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Interest is capitalized on proprietary funds' construction in progress in accordance with Statement of Financial Accounting Standards (SFAS) No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use.

(j) Property Tax Levy, Collection, and Maximum Rate

The State's Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value except for rates levied to pay principal and interest on general obligation debt. Such debt shall have voter approval unless incurred prior to June 6, 1978. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased no more than 2% per year unless the property is sold or transferred. Whenever there are changes in ownership, completed construction or demolition, properties are subject to supplemental assessment based on the change in assessed valuation. Supplemental taxes are levied on the value change and prorated for the balance of the tax year. The State Legislature, through Assembly Bill 8 and subsequent legislation, defined the methodology for distributing the 1% tax levy and collections among the County, cities, schools, and other local jurisdictions.

The County assesses property values, and levies, bills and collects the related taxes as follows:

Table with 3 columns: Category, Secured, Unsecured. Rows include Lien dates, Levy dates, Due Dates, and Delinquent after.

Annually, the Board of Supervisors sets the rates to be applied to the tax roll for the benefit of local taxing jurisdictions as provided by State Code. These taxes are secured by liens on the property being taxed. Taxes secured by land and improvements are levied on the Secured Tax Roll, while those taxes secured by personal property are levied on the Unsecured Tax Roll.

In 1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County distributes 100% of the secured tax levy to participating jurisdictions regardless of collections. To cover losses on delinquent tax sales, counties using the Teeter Plan must maintain a Tax Losses Reserve Fund. The Tax Losses Reserve Fund is included in the County's 'Apportioned Tax Resources' Agency Fund. When the balance in this fund exceeds the minimum balance required by the State Code, the excess may be transferred to the General Fund.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(k) *Interfund Transactions*

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide statements as “internal balances.” Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(l) *Bond Issuance Costs, Original Issue Discounts and Premiums, Deferred Losses on Refunding*

In governmental fund types, bond premiums, discounts and issuance costs are recognized in the period bond proceeds are received. Bond premiums/discounts and issuance costs for the government-wide statement of net assets and proprietary fund types are deferred and amortized over the term of the bonds using a method that approximates the interest method. In the government-wide statements bond premiums/discounts and bond premiums/discounts for proprietary fund types are presented as an increase/reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

(m) *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 as capital assets and long-term liabilities in the governmental-wide statement of net assets, respectively. For proprietary fund types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(n) *Accrued Vacation and Sick Leave*

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year-end. This liability is recorded in the government-wide statement of net assets and in the various proprietary funds to reflect the County's obligation to fund such costs from future operations. The County includes its share of social security and Medicare payments made on behalf of the employees in its accrual for compensated absences. The County does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

(o) *Net Pension Obligation*

In May 2005, the CalPERS agreed to restructure the County's pension contribution for the 2004-05 fiscal year and to defer a portion of the scheduled payment. In fiscal year 2007-08, the County will begin payment of this deferred amount with an increase to the CalPERS payment of approximately \$3.5 million. Subsequent payments will be decreased by 10% per year. See Note 12 for the accounting treatment of the net pension obligation.

(p) *Effects of New Pronouncements*

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the County's fiscal year ending June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether the proceeds received, should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. Application of this statement is effective for the County's fiscal year ending June 30, 2008.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Application of this statement is effective for the County's fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the County's fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the County's fiscal year ending June 30, 2010.

(q) Use of Estimates

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(2) Stewardship, Compliance and Accountability

The Unemployment Insurance Internal Service Fund and the Workers' Compensation Internal Service Fund have net deficits of \$94 and \$31,516, respectively. The deficits are expected to be eliminated in future years through rate increases.

(3) Cash and Investments

(a) *Description*

The County Treasurer maintains common cash and investment pools in which cash may be invested by individual County funds and by certain independent local governmental agencies. In addition, investments are held separately by the Treasurer for several other County funds, including: the Justice Facilities Bonds Debt Service Fund, the Multiple Facilities Bonds Debt Service Fund, the Morgan Hill Courthouse Bonds Debt Service Fund, debt proceeds for SCVMC construction projects, the Retiree Healthcare Internal Service Fund and certain school districts. Each fund type's share of the common pool is combined with cash and investments held separately and shown on the accompanying balance sheet/statement of net assets as "cash and investments – unrestricted" and "cash and investments – other restricted."

Cash and investments – restricted with fiscal agents represent monies held by trustees that are legally restricted for the retirement of long-term debt. Cash and investments - other restricted represents monies held in the County Treasury for investments restricted in the SCVMC by debt covenants for construction projects and professional services. Cash and investments – other restricted also includes monies held in the County Treasury restricted for specific purposes consisting primarily of reserves for employee benefits and certain other debt service funds.

(b) *Investment Policies*

The objectives of the County's investment policy, in order of priority, are safety of principal to ensure preservation of capital in the overall portfolio, maintenance of liquidity sufficient to meet anticipated operating requirements, and attain a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics. The objectives of the policy also insure mitigation of **interest rate risk**, **credit risk**, and **concentration of credit risk**.

The table below identifies the investment types that are authorized for the County by the California Government Code (or the County's investment policy, where more restrictive). This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(3) Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage/Dollar Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>	<u>Moody's Credit Rating Minimum</u>
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
State Local Agency Investment Fund (LAIF)	N/A	None	None	None
Repurchase Agreements	92 days	\$90 million	None	None
Reverse Repurchase Agreements	92 days	None	None	None
Securities Lending	92 days	20%	None	None
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	7.5% of the 30%	Aa3
Bankers' Acceptances	180 days	40%	15% of the 40%	A1
Commercial Paper	270 days	40%	10%	P-1
Medium-Term Corporate Notes	5 years	30%	10% of the 30%	Aa3
Notes & Bonds of Other Local Agencies	5 years	None	None	None
Municipal Obligations	5 years	10%	None	A
Money Market Mutual Funds & Mutual Funds	5 years*	20%	10%	Highest Rating

* Mutual funds maturity may be defined as the weighted average maturity.

In accordance with Government Code Sections 53620-53622, the assets of the Santa Clara County Retiree Healthcare Plan, which is reported in an Internal Service Fund, may be invested in bonds that have a final maturity of 30 years or less from purchase date; and in bonds with a Moody's credit rating of A3 or higher at time of purchase, and may have its fixed income holdings structured with sector concentrations comparable to those of the Lehman Aggregate Index. Additionally, the Board of Supervisors has determined that up to 67% of the Retiree Healthcare Plan assets, excluding near-term liability payouts, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

Investments of debt proceeds held by bond trustees are governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government	\$ 1,275,077	\$ 321,959	\$ 1,597,036
Component Units	118,903	6,236	125,139
Investment Trust Funds	2,196,167	5	2,196,172
Private-Purpose Trust Fund	52,070	-	52,070
Agency Funds	26,999	4,440	31,439
Total cash and investments	<u>\$ 3,669,216</u>	<u>\$ 332,640</u>	<u>\$ 4,001,856</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(3) Cash and Investments (Continued)

The County's cash and investments are as follows:

Cash and deposits:	
Cash on hand	\$ 139
Deposits of the County	17,212
Nonnegotiable certificates of deposit in Treasury's Pool	1,679
Restricted deposits	5,546
Deposits with component units:	
Housing Authority	6,759
FIRST 5	47
	<hr/>
Total cash and deposits	31,382
Investments:	
With Treasurer	3,864,741
With fiscal agents	26,225
With Housing Authority	25,851
With FIRST 5	53,657
	<hr/>
Total investments	3,970,474
	<hr/>
Total cash, deposits and investments	\$ 4,001,856
	<hr/>

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2007, \$635 of the County's bank balance of \$31,765 was exposed to custodial credit risk by not being insured or collateralized.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued) June 30, 2007 (Dollars in thousands)

(3) Cash and Investments (Continued)

(d) Investment Composition

As of June 30, 2007, the major classes of the County's cash and investments consisted of the following:

	Interest Rates	Par Value	Fair Value	Investment Maturities (in years)					
				Less than 0.5	0.5 - 1	1 - 3	3 - 5	5 - 10	10 - 30
With Treasurer:									
Commingled pool:									
U.S. Treasury Notes	4.38% - 5.50%	\$ 60,000	\$ 59,988	\$ -	\$ 39,994	\$ 19,994	\$ -	\$ -	\$ -
U.S. Agencies - Coupon	2.88% - 6.00%	1,978,482	1,962,864	397,782	299,853	849,359	415,870	-	-
U.S. Agencies - Discount	4.80%	1,000	1,000	1,000	-	-	-	-	-
Medium-term corporate notes	2.88% - 6.88%	388,674	385,370	38,782	81,614	193,298	71,676	-	-
Commercial paper	5.05% - 5.35%	826,000	825,190	825,190	-	-	-	-	-
Negotiable Certificate of Deposits	5.25% - 5.41%	160,000	159,990	109,992	34,972	15,026	-	-	-
State Local Agency Investment Fund	5.25%	40,000	39,982	-	-	-	-	-	-
Subtotal commingled pool		<u>3,454,156</u>	<u>3,434,384</u>	<u>1,412,728</u>	<u>456,433</u>	<u>1,077,677</u>	<u>487,546</u>	<u>-</u>	<u>-</u>
Separate investments:									
U.S. Treasury Notes		31,030	30,361	-	-	3,213	8,696	14,475	3,977
U.S. Agencies - Coupon		90,249	88,374	7,371	3,469	22,387	6,556	-	48,591
Municipal bonds		11,148	11,163	11,163	-	-	-	-	-
Medium-term corporate notes		35,154	34,479	12,178	-	5,263	4,843	6,147	6,048
Commercial paper		8,400	8,399	8,399	-	-	-	-	-
Money market mutual funds		2,485	2,485	2,485	-	-	-	-	-
Stock mutual funds:									
Vanguard 500 Index Fund		88,878	119,192	119,192	-	-	-	-	-
Vanguard Mid Cap Index Fund		54,137	85,097	85,097	-	-	-	-	-
Vanguard Small-Cap Index Fund		30,157	50,807	50,807	-	-	-	-	-
Subtotal separate investments		<u>351,638</u>	<u>430,357</u>	<u>296,692</u>	<u>3,469</u>	<u>30,863</u>	<u>20,095</u>	<u>20,622</u>	<u>58,616</u>
Subtotal with Treasurer		<u>3,805,794</u>	<u>3,864,741</u>	<u>1,709,420</u>	<u>459,902</u>	<u>1,108,540</u>	<u>507,641</u>	<u>20,622</u>	<u>58,616</u>
With fiscal agents:									
U.S. Treasury Notes		2,242	2,204	352	-	632	1,220	-	-
U.S. Agencies - Coupon		14,490	14,378	299	9,131	2,693	2,255	-	-
U.S. Agencies - Discount		986	984	984	-	-	-	-	-
Medium-term corporate notes		2,755	2,748	-	-	2,748	-	-	-
Money market mutual funds		5,911	5,911	5,911	-	-	-	-	-
Subtotal with fiscal agents		<u>26,384</u>	<u>26,225</u>	<u>7,546</u>	<u>9,131</u>	<u>6,073</u>	<u>3,475</u>	<u>-</u>	<u>-</u>
With Housing Authority:									
U.S. Agencies		12,062	12,062	-	-	591	11,471	-	-
Money market mutual funds		3,346	3,345	3,345	-	-	-	-	-
State Local Agency Investment Fund		10,444	10,444	10,444	-	-	-	-	-
Subtotal with Housing Authority		<u>25,852</u>	<u>25,851</u>	<u>13,789</u>	<u>-</u>	<u>591</u>	<u>11,471</u>	<u>-</u>	<u>-</u>
With FIRST 5:									
U.S. Treasury Notes		12,761	12,761	-	-	3,197	9,564	-	-
U.S. Agencies - Coupon		25,076	25,076	-	-	18,554	6,522	-	-
Medium-term corporate notes		14,186	14,186	-	1,738	4,407	8,041	-	-
Money market funds		1,634	1,634	1,634	-	-	-	-	-
Subtotal with FIRST 5		<u>53,657</u>	<u>53,657</u>	<u>1,634</u>	<u>1,738</u>	<u>26,158</u>	<u>24,127</u>	<u>-</u>	<u>-</u>
Total investments		<u>\$ 3,911,687</u>	<u>\$ 3,970,474</u>	<u>\$ 1,732,389</u>	<u>\$ 470,771</u>	<u>\$ 1,141,362</u>	<u>\$ 546,714</u>	<u>\$ 20,622</u>	<u>\$ 58,616</u>

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Interest Rate Risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its commingled pool to eighteen months. At June 30, 2007, the County's weighted average maturity of its commingled pool is 470 days. The County invested in callable Federal Agency issues within its commingled pool (\$530,449 of the County's U.S. Agencies – Coupon position of \$1,962,864) and the Housing Authority invested in callable Federal Agency issues in the amount of \$11,542. These issues are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

(Dollars in thousands)

(3) Cash and Investments (Continued)

Credit Risk

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuers ability to make these payments will cause security prices to decline. The following is a summary of the credit quality distribution for securities with credit exposure as a percentage of investments with Treasury (Commingled pool and Separate), fiscal agent, Housing Authority and FIRST 5 as rated by Moody's Investors Service:

Investment	Moody's Rating	% of Commingled Pool investments with the Treasury	% of Separate investments with the Treasury	% of investments with fiscal agents	% of investments with Housing Authority	% of investments with FIRST 5
U.S. Treasury	Exempt	1.7%	7.1%	8.4%	0.0%	23.8%
U.S. Agencies	Exempt	0.0%	0.6%	0.0%	0.0%	0.0%
U.S. Agencies	Aaa	57.1%	19.9%	56.9%	46.7%	46.7%
U.S. Agencies	P-1	0.0%	0.0%	1.7%	0.0%	0.0%
Municipal bonds	Aaa	0.0%	0.9%	0.0%	0.0%	0.0%
Municipal bonds	Aa	0.0%	0.9%	0.0%	0.0%	0.0%
Municipal bonds	A	0.0%	0.4%	0.0%	0.0%	0.0%
Municipal bonds	P-1	0.0%	0.4%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	3.9%	0.5%	1.3%	0.0%	7.8%
Medium-term corporate notes	Aa	7.4%	4.9%	9.2%	0.0%	16.9%
Medium-term corporate notes	A	0.0%	2.5%	0.0%	0.0%	1.8%
Commercial paper	P-1	24.0%	2.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aaa	1.6%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa	3.1%	0.0%	0.0%	0.0%	0.0%
Money market mutual funds	Aaa	0.0%	0.6%	22.5%	12.9%	0.0%
Money market funds	Not rated	0.0%	0.6%	0.0%	0.0%	3.0%
State Local Agency Investment Fund	Not rated	1.2%	0.0%	0.0%	40.4%	0.0%
Stock Mutual Fund	Not applicable	0.0%	59.3%	0.0%	0.0%	0.0%
Total Investments		<u>100.0%</u>	<u>100.6%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Government Code Section 16429.1 authorizes each local government agency to invest funds in the State Treasurer's Local Agency Investment Fund (LAIF) administered by the California State Treasurer. LAIF is part of the State of California Pooled Money Investment Account (PMIA), which balance at June 30, 2007 was \$65,756,666. Of the total invested in PMIA, 96.53% is invested in non-derivative financial products and 3.47% in structured notes and asset-backed securities as of June 30, 2007. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(3) Cash and Investments (Continued)

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The County diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to this limitation. More than 5 percent of the County's pooled investments are in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and the Federal National Mortgage Association, which represent 22.1%, 17.3% and 15.5%, respectively, of the County's pooled investments.

(e) Condensed Financial Information

In lieu of separately issued financial statements for the external pools, condensed financial information is presented below as of and for the year ended June 30, 2007:

Assets			
U.S. Treasury Notes	\$	90,349	
U.S. Agencies - Coupon		2,051,238	
U.S. Agencies - Discount		1,000	
Municipal bonds		11,163	
Medium-term corporate notes		419,849	
Commercial paper		833,589	
Negotiable certificate of deposits		159,990	
Money market mutual fund		2,485	
State Local Agency Investment Fund		39,982	
Stock mutual funds		255,096	
Total investments		<u>3,864,741</u>	
Other assets (Interest receivable)		36,362	
Pool deposits		1,679	
Total assets		<u><u>\$ 3,902,782</u></u>	
Net Assets:			
Equity of internal pool participants	\$	1,685,799	
Equity of individual investment accounts		13,740	
Equity of external pool participants		2,203,243	
Total net assets		<u><u>\$ 3,902,782</u></u>	
Statement of Changes in Net Assets			
Net assets at July 1, 2006	\$	4,000,110	
Net change in investments by pool participants		<u>(97,328)</u>	
Net assets at June 30, 2007		<u><u>\$ 3,902,782</u></u>	
Net assets composition of the equity of external pool participants is as follows:			
Participants units outstanding (\$1 par)			\$ 2,210,725
Undistributed and unrealized loss			<u>(7,482)</u>
Net assets at June 30, 2007			<u><u>\$ 2,203,243</u></u>
Participants net asset value at fair value price per share (\$2,203,243 divided by 2,210,725 units)			
			<u><u>\$ 1.00</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(4) Receivables

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

Receivables - Governmental Activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Property tax	\$ 5,683	\$ -	\$ -	\$ 5,683
Loans receivable	-	28,483	-	28,483
Other	140,770	5,836	6,620	153,226
Gross receivables	146,453	34,319	6,620	187,392
Less: allowance for uncollectibles	(90,325)	-	-	(90,325)
Total receivables, net	<u>\$ 56,128</u>	<u>\$ 34,319</u>	<u>\$ 6,620</u>	<u>\$ 97,067</u>

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	\$ 412,844	\$ -	\$ 412,844
Other	3,548	161	3,709
Gross receivables	416,392	161	416,553
Less allowance for uncollectibles	(315,088)	-	(315,088)
Total receivables, net	<u>\$ 101,304</u>	<u>\$ 161</u>	<u>\$ 101,465</u>

Loan receivables from housing programs in the amount of \$28,483 are not expected to be collected within the subsequent year.

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2007, the components of deferred revenue reported, separated into unavailable revenue and unearned revenue, were as follows:

	Unavailable	Unearned
Governmental Activities:		
General Fund:		
Due from other governmental agencies	\$ 143,735	\$ 9
Other receivables	9,044	486
Other miscellaneous assets including cash deposits	-	16,685
Nonmajor governmental funds:		
Due from other governmental agencies	-	320
Other receivables	28,483	682
Other miscellaneous assets including cash deposits	-	240
Internal Service Funds	-	16
Total governmental activities	<u>\$ 181,262</u>	<u>\$ 18,438</u>
Business-type activities:		
Nonmajor enterprise funds	<u>\$ -</u>	<u>\$ 79</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(4) Receivables (Continued)

In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement of purchase and sale of approximately 35-acres of Elmwood surplus lands in the amount of (1) \$135,000 payable in installments over a 20-year period; (2) the aggregate sum of the Developer Negotiated Value for all parcels comprising the property; and (3) 8 years of Additional Payments, estimated at \$3,500 per year, negotiated under the Sales and Use Tax Sharing Agreement based on 50% of the sales tax revenue generated by the additional redevelopment project area together with the Elmwood commercial area. In August 2003, the County approved the agreement with KB Home South Bay, Inc. (KB Home) for the base land value of \$57,750 (Developer Negotiated Value) enabling the County's disposition of the Elmwood surplus lands and the MRDA's purchase and re-sale of the property.

The following table shows the estimated cash flows related to the sale of the Elmwood surplus lands:

Fiscal year ending June 30,	Developer Negotiated Value	Other	Milpitas Redevelopment Agency		Total
			Installment Payments	Additional Payments	
2004	\$ 2,500	\$ -	\$ 24,000	\$ -	\$ 26,500
2005	38,500	419	4,000	-	42,919
2006	16,750	-	4,000	-	20,750
2007	-	-	4,000	-	4,000
2008	-	-	4,000	-	4,000
2009	-	-	4,000	-	4,000
2010	-	-	4,000	-	4,000
2011-2015	-	-	22,000	-	22,000
2016-2020	-	-	27,000	-	27,000
2021-2025	-	-	18,000	7,000	25,000
2026-2030	-	-	-	17,500	17,500
2031	-	-	-	3,500	3,500
Total	57,750	419	115,000	28,000	201,169
Less amount received to date	(57,750)	(419)	(36,000)	-	(94,169)
Balance at June 30, 2007	\$ -	\$ -	\$ 79,000	\$ 28,000	\$ 107,000

As of June 30, 2007, the County's General Fund receivable balance of \$107,000 represents the remaining estimate future cash flow related to the sale of the Elmwood surplus lands. This balance is reported as due from other governmental agencies offset by deferred revenue. For the year ended June 30, 2007, the County's General Fund received \$4,000 related to the sale of the Elmwood surplus lands.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2007, by individual fund/fund type are summarized as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	SCVMC	\$ 2,329
SCVMC	Nonmajor Governmental Funds	2,942
Nonmajor Governmental Funds	General Fund	740
Nonmajor Governmental Funds	SCVMC	13,743
Nonmajor Governmental Funds	Nonmajor Governmental Funds	11,165
Internal Service Funds	Nonmajor Governmental Funds	13,122
Agency Funds	Agency Funds	75,744
Total		<u>\$ 119,785</u>

The General Capital Improvement Fund is due \$13,743 from SCVMC to reimburse capital project costs incurred. The interfund balances between the County's Agency Funds represent current borrowings for working capital expected to be repaid during the following year.

The Retiree Healthcare Internal Service Fund is due \$13,122 from the General Capital Improvement Fund for short-term working capital for various capital projects.

All remaining interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Advances to/from other funds:

The advance of \$1,375 between SCVMC and the Multiple Facilities Construction Fund represents unspent bond proceeds held by the County which SCVMC could drawdown for expenditures on future capital projects.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(5) Interfund Transactions (Continued)

The following schedule briefly summarizes the County's transfer activities:

Between Governmental and Business-type Activities:

Transfer From	Transfer To	Amount	Purpose
General Fund	SCVMC	\$ 260,778	Transfer funds for operating subsidy.
General Fund	SCVMC	100,000	Transfer funds for SCVMC's Seismic Compliance Modernization projects.
General Fund	SCVMC	15,383	Transfer San Jose RDA delegated payment for capital projects.
SCVMC	General Fund	101,294	Transfer funds to return operating subsidy.
SCVMC	Nonmajor Governmental Funds	87,370	Transfer bond proceeds to General Capital Improvement for Valley Specialty Center and Valley Health Center projects.
Subtotal Between Governmental and Business-type Activities:		<u>564,825</u>	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Nonmajor Governmental Funds	51	Transfer funds to Library Fund for annual contribution per Join Power Authority (JPA) agreement.
		125	Transfer funds to HCD fund to subsidize the operation of CDBG program.
		758	Transfer funds to pay principal and interest for Hospital Facilities Authority Bonds.
		15,462	Transfer funds to finance various Facilities and Fleet Department capital projects.
		39,255	Transfer funds to Tobacco Securitization Corporation for operating uses.
		5,639	Transfer funds to Roads Fund for Measure B Transportation Improvement Program.
		<u>61,290</u>	
General Fund	Internal Service Fund	3,559	Transfer funds to Facilities & Fleet Department for acquisition of new vehicles and ESA for the purchase of defibrillators.
Nonmajor Governmental Funds	General Fund	93	Transfer funds from Vital Statistics Funds for specified ongoing operations.
		3,229	Transfer funds from Clerk-Recorder's Funds to cover expenses over the enhanced 1985 base.
		813	Transfer interest earned on the Capital Project Fund back to General Fund for energy conservation projects and the contingency reserve.
		14,449	Transfer funds to pay bond interest expense.
		407	Transfer funds to pay contract services for a 10 year plan to address chronic homelessness in the County.
		139,255	Transfer proceeds from sale of future Tobacco Settlement Revenue.
		<u>5,269</u>	Transfer funds for Proposition 36 expenditures.
		<u>163,515</u>	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	150	Transfer funds from Vector Control District Fund to design the alteration projects related to the new Vector Control building.
		22,530	Transfer funds to Parks operating funds for operating uses.
		12,434	Transfer bond proceeds to General Capital Improvement for Morgan Hill Courthouse project.
		3,329	Transfer bond proceeds to General Capital Improvement for Charcot project.
		38,870	Transfer bond proceeds to General Capital Improvement for Crime Lab/ Courthouse Seismic projects.
		8	Transfer remaining cost of issuance to Capital Interest Fund to pay for bond interest expense.
		<u>77,321</u>	
Total Between Funds within Governmental or Business-type Activities:		<u>305,685</u>	
Total Transfers:		<u>\$ 870,510</u>	

* These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

During the fiscal year ended June 30, 2007, the County's governmental activities funded from the General Capital Improvement Fund transferred the accumulated costs in the amount of \$87,370 related to the active construction projects involving the Valley Health Centers, Valley Specialty Center, and other health facility improvements to SCVMC. These amounts were not reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the SCVMC did report a transfer in for the capital resources received.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance, July 1, 2006	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2007
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 177,953	\$ 2,354	\$ -	\$ 6,755	\$ 187,062
Construction in progress	141,189	184,654	(358)	(109,327)	216,158
Total capital assets, not being depreciated	<u>319,142</u>	<u>187,008</u>	<u>(358)</u>	<u>(102,572)</u>	<u>403,220</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	176,748	-	-	11,528	188,276
Buildings and improvements	658,983	1,884	-	3,674	664,541
Equipment and vehicles	136,514	11,578	(4,780)	-	143,312
Total capital assets, being depreciated	<u>972,245</u>	<u>13,462</u>	<u>(4,780)</u>	<u>15,202</u>	<u>996,129</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(50,328)	(7,392)	-	-	(57,720)
Buildings and improvements	(356,816)	(12,774)	-	(512)	(370,102)
Equipment and vehicles	(98,855)	(11,471)	4,314	512	(105,500)
Total accumulated depreciation	<u>(505,999)</u>	<u>(31,637)</u>	<u>4,314</u>	<u>-</u>	<u>(533,322)</u>
Total capital assets, being depreciated, net	<u>466,246</u>	<u>(18,175)</u>	<u>(466)</u>	<u>15,202</u>	<u>462,807</u>
Governmental activities, capital assets, net	<u>\$ 785,388</u>	<u>\$ 168,833</u>	<u>\$ (824)</u>	<u>\$ (87,370)</u>	<u>\$ 866,027</u>
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	101,376	15,696	-	58,772	175,844
Total capital assets, not being depreciated	<u>107,686</u>	<u>15,696</u>	<u>-</u>	<u>58,772</u>	<u>182,154</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	378,325	-	(1,002)	21,531	398,854
Equipment and vehicles	83,220	33	(5,650)	7,067	84,670
Leasehold improvements	2,274	-	-	-	2,274
Total capital assets, being depreciated	<u>463,819</u>	<u>33</u>	<u>(6,652)</u>	<u>28,598</u>	<u>485,798</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(181,345)	(17,494)	1,002	-	(197,837)
Equipment and vehicles	(61,118)	(5,934)	5,596	-	(61,456)
Leasehold improvements	(1,187)	(102)	-	-	(1,289)
Total accumulated depreciation	<u>(243,650)</u>	<u>(23,530)</u>	<u>6,598</u>	<u>-</u>	<u>(260,582)</u>
Total capital assets, being depreciated, net	<u>220,169</u>	<u>(23,497)</u>	<u>(54)</u>	<u>28,598</u>	<u>225,216</u>
Business-type activities, capital assets, net	<u>\$ 327,855</u>	<u>\$ (7,801)</u>	<u>\$ (54)</u>	<u>\$ 87,370</u>	<u>\$ 407,370</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2007 was as follows:

	Balance, July 1, 2006	Additions	Reductions/ Adjustments	Balance, June 30, 2007
<i>Capital assets, not being depreciated:</i>				
Land	\$ 14,296	\$ -	\$ -	\$ 14,296
Construction in progress	808	6,903		7,711
Total capital assets, not being depreciated	<u>15,104</u>	<u>6,903</u>	<u>-</u>	<u>22,007</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	52,724	147	-	52,871
Equipment and vehicles	2,465	743	-	3,208
Total capital assets, being depreciated	<u>55,189</u>	<u>890</u>	<u>-</u>	<u>56,079</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(20,300)	(1,527)	-	(21,827)
Equipment and vehicles	(2,271)	(162)	-	(2,433)
Total accumulated depreciation	<u>(22,571)</u>	<u>(1,689)</u>	<u>-</u>	<u>(24,260)</u>
Total capital assets, being depreciated, net	<u>32,618</u>	<u>(799)</u>	<u>-</u>	<u>31,819</u>
Housing Authority capital assets, net	<u>\$ 47,722</u>	<u>\$ 6,104</u>	<u>\$ -</u>	<u>\$ 53,826</u>

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2007 was as follows:

	Balance, July 1, 2006	Additions	Reductions/ Adjustments	Balance, June 30, 2007
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,358	\$ -	\$ -	\$ 2,358
Total capital assets, not being depreciated	<u>2,358</u>	<u>-</u>	<u>-</u>	<u>2,358</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,384	-	-	4,384
Furniture and equipment	146	-	-	146
Total capital assets, being depreciated	<u>4,530</u>	<u>-</u>	<u>-</u>	<u>4,530</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(194)	(213)	-	(407)
Furniture and equipment	(195)	(18)	-	(213)
Total accumulated depreciation	<u>(389)</u>	<u>(231)</u>	<u>-</u>	<u>(620)</u>
Total capital assets, being depreciated, net	<u>4,141</u>	<u>(231)</u>	<u>-</u>	<u>3,910</u>
FIRST 5 capital assets, net	<u>\$ 6,499</u>	<u>\$ (231)</u>	<u>\$ -</u>	<u>\$ 6,268</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(6) Capital Assets (Continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 16,832
Public protection	2,976
Public ways	7,570
Health and sanitation	380
Public assistance	463
Education	364
Recreation	689
Amount reported in the internal service funds	<u>2,363</u>
Total depreciation expense - governmental functions	<u><u>\$ 31,637</u></u>

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

SCVMC	\$ 22,915
Airport	587
Sanitation District	28
Total depreciation expense - business-type functions	<u><u>\$ 23,530</u></u>

Capital Projects Commitments

As of June 30, 2007, the SCVMC and the Airport have active construction projects that include constructions of Valley Health Center at Gilroy, Milpitas, and Sunnyvale; the Valley Specialty Center; seismic compliance for all SCVMC buildings; installation of a new absorption chiller and cooling tower at Valley Specialty Center; continued construction of South County Airport aircraft hangars and fire protection system; infrastructure and facility improvement of Reid Hillview Airport and Palo Alto Airport.

The County's commitments for business-type activities as of June 30, 2007 are as follows:

<u>Projects</u>	<u>Expended to June 30, 2007</u>	<u>Committed as of June 30, 2007</u>
Hospital Projects:		
Valley Specialty Center	\$ 98,527	\$ 22,278
VHC Gilroy/Fair Oaks/Milpitis	54,820	34,468
Facility Planning and Design	4,370	2,673
Other	11,970	3,130
Airport Projects	<u>6,157</u>	<u>478</u>
Total	<u><u>\$ 175,844</u></u>	<u><u>\$ 63,027</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(6) Capital Assets (Continued)

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2007. They are as follows:

- Roads projects include bridge seismic retrofit, rehabilitation and replacement; pedestrian and bicycle routes improvements; signal synchronization programs and pavement management of Measure B projects; the continued comprehensive study and planning for the County’s expressways.
- Parks projects include Almaden Quicksilver toxic mitigation; Santa Teresa County Park and Coyote Lake County Park Development Projects; land acquisition for Anderson Lake County Park; and Improvement of County Parks’ facilities.
- General capital projects include the construction of the Morgan Hill Courthouse; a new Crime Lab; continued renovation and improvement of the Juvenile Hall Housing detention buildings and jail facilities; the remodeling of County buildings; repair and replacement of County’s facilities; and the upgrade of County buildings’ security system.

The County’s governmental activities commitments at June 30, 2007 are as follows:

<u>Projects</u>	<u>Expended to June 30, 2007</u>	<u>Committed as of June 30, 2007</u>
Road projects	\$ 41,311	\$ 6,838
Park projects	19,919	979
General capital projects	154,928	48,639
Total	<u>\$ 216,158</u>	<u>\$ 56,456</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(7) Capital Leases

The County leases certain structures, vehicles, and equipment, obtained under various lease financing agreements. The leases expire at various times through the fiscal year 2019.

As of June 30, 2007, governmental activities property and accumulated depreciation of major classes of assets under capital lease are as follows:

Description		
Buildings and improvements	\$	6,462
Equipment and vehicles		26,004
Total capital assets		32,466
Less accumulated depreciation		(27,194)
Net capital assets	\$	5,272

Future minimum lease payments under governmental activities capital leases are as follows:

Fiscal year ending June 30,		
2008	\$	1,129
2009		830
2010		526
2011		399
2012		302
2013-2017		938
2018-2019		240
Total		4,364
Amount representing interest at rates from 0.00% to 4.78%		(197)
Present value of future minimum lease payments	\$	4,167

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities

As of June 30, 2007, outstanding long-term obligations consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
Governmental activities:					
1998 YMCA COP Series A	6/15/2008	4.50%	\$280	\$ 2,325	\$ 280
2006 Vector Control COP Series TT	6/1/08-6/1/27	3.50-5.00%	\$145 - \$330	4,495	4,420
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A & B	8/1/07-8/1/15	(1)	\$557 - \$8,000	19,205	15,125
Silicon Valley Tobacco Securitization Authority:					
Tobacco Settlement Asset-Backed Bonds	6/1/36-6/1/56	5.63-6.85%	\$4,408 - \$43,604	102,030	102,030
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/07-(2)	(3)	\$93 - \$262	2,060	1,158
1997 Lease Revenue Bonds Series A	11/15/07 - 11/15/22	4.60% - 6.00%	\$161 - \$1,632	16,649	10,842
1998 Lease Revenue Bonds Series A	5/15/08 - 5/15/17	4.25% - 4.75%	\$350 - \$5,749	61,373	27,315
2000 Lease Revenue Bonds Series B	5/15/08 - 5/15/17	5.25% - 5.50%	\$3,860 - \$6,000	71,920	49,485
2003 Lease Revenue Bonds Series C	5/15/08 - 5/15/23	3.00% - 5.00%	\$880 - \$1,645	20,025	19,175
2003 Lease Revenue Bonds Series D	5/15/24 - 5/15/33	(4)	\$1,825 - \$2,475	21,350	21,350
2004 Lease Revenue Bonds Series A	9/1/07 - 9/1/29	(7)	\$70 - \$255	3,550	3,420
2005 Lease Revenue Bonds Series H	5/15/08 - 5/15/35	(8)	\$850 - \$2,200	40,725	39,900
2006 Lease Revenue Bonds Series I	5/15/09 - 5/15/31	3.50% - 5.00%	\$2,342 - \$5,895	87,575	87,575
2006 Lease Revenue Bonds	9/1/08 - 9/1/38	5.00%	\$50 - \$510	5,125	5,125
Total governmental activities				<u>\$ 458,407</u>	<u>\$ 387,200</u>
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A&B	8/1/07-8/1/15	(1)	\$2,942 - \$5,527	\$ 55,795	\$ 34,275
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/07-(2)	(3)	\$6,332 - \$7,924	256,435	79,190
1997 Lease Revenue Bonds Series A	11/15/07-11/15/22	4.60% - 6.00%	\$1,324 - \$16,307	171,756	155,258
1998 Lease Revenue Bonds Series A	5/15/08 - 5/15/17	4.13% - 4.75%	\$1,284 - \$1,457	16,322	6,710
2005 Lease Revenue Bonds Series E	5/15/09 - 5/15/11	4.00% - 4.50%	\$3,550 - \$3,855	11,110	11,110
2005 Lease Revenue Bonds Series F	5/15/12-5/15/35	(5)	\$1,975 - \$4,150	71,025	71,025
2005 Lease Revenue Bonds Series G	5/15/12-5/15/35	(6)	\$1,975 - \$4,150	71,025	71,025
2006 Lease Revenue Bonds Series I	5/15/09 - 5/15/31	3.50% - 5.00%	\$1,662 - \$4,185	62,165	62,165
2006 Lease Revenue Bonds Series J	5/15/32 - 5/15/36	(9)	\$9,750 - \$11,900	53,950	53,950
				<u>769,583</u>	<u>544,708</u>
Airport:					
ABAG Lease Revenue Bonds Series 2002-1	7/1/07-7/1/32	3.50-5.00%	\$265 - \$355	6,780	5,875
Total business-type activities				<u>\$ 776,363</u>	<u>\$ 550,583</u>

- (1) Variable rate, 3.69% effective as of June 30, 2007.
- (2) Series A: 11/15/11 and Series B: 11/15/25.
- (3) Series A: fixed rates from 6.40% to 7.75% and Series B: variable rate, 3.68% effective as of June 30, 2007.
- (4) Variable rate, 3.70% effective as of June 30, 2007.
- (5) Variable rate, 3.75% effective as of June 30, 2007.
- (6) Variable rate, 3.65% effective as of June 30, 2007.
- (7) Variable rate, 3.71% effective as of June 30, 2007.
- (8) Variable rate, 3.75% effective as of June 30, 2007.
- (9) Variable rate, 3.75% effective as of June 30, 2007.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2007:

	Balance, July 1, 2006	Additions	Retirements	Balance, June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 286,628	\$ 5,125	\$ 11,283	\$ 280,470	\$ 11,861
Unamortized premium	1,502	-	70	1,432	70
Special Obligation Bonds	71,395	-	71,395	-	-
Unamortized premium	231	-	231	-	-
Tobacco Settlement Asset-Backed Bonds	-	102,030	-	102,030	-
Accreted interest on capital appreciation bonds	-	2,624	-	2,624	-
Certificates of Participation	550	4,495	345	4,700	425
Unamortized premium	-	181	9	172	9
Subtotal governmental bonds	<u>360,306</u>	<u>114,455</u>	<u>83,333</u>	<u>391,428</u>	<u>12,365</u>
Capital Lease Obligations (Note 7)	5,289	425	1,547	4,167	1,050
Accrued litigation liability	10,000	-	3,400	6,600	-
Insurance claims (Note 13)	104,046	46,911	48,525	102,432	33,066
Net Pension Obligation (Note 12)	26,561	2,060	-	28,621	3,712
Accrued vacation & sick leave	110,524	88,504	81,873	117,155	10,778
Total governmental activities	<u>\$ 616,726</u>	<u>\$ 252,355</u>	<u>\$ 218,678</u>	<u>\$ 650,403</u>	<u>\$ 60,971</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 555,651	\$ -	\$ 10,943	\$ 544,708	\$ 11,634
Unamortized discount	(3,635)	-	(292)	(3,343)	(292)
Unamortized premium	1,094	-	109	985	109
Unamortized deferred loss on refunding	(15,814)	-	(1,143)	(14,671)	(1,143)
Subtotal SCVMC bonds	<u>537,296</u>	<u>-</u>	<u>9,617</u>	<u>527,679</u>	<u>10,308</u>
Airport Lease Revenue Bonds	6,115	-	240	5,875	265
Unamortized discount	(22)	-	(1)	(21)	(1)
Subtotal Airport bonds	<u>6,093</u>	<u>-</u>	<u>239</u>	<u>5,854</u>	<u>264</u>
Net Pension Obligation (Note 12)	11,151	863	-	12,014	1,553
Accrued vacation & sick leave	47,536	47,760	42,422	52,874	8,478
Total business-type activities	<u>\$ 602,076</u>	<u>\$ 48,623</u>	<u>\$ 52,278</u>	<u>\$ 598,421</u>	<u>\$ 20,603</u>
Component Units:					
<i>Housing Authority:</i>					
Notes payable	\$ 2,990	\$ 1,692	\$ -	\$ 4,682	\$ 346
Bonds payable	4,230	-	165	4,065	170
Bracher HDC, Inc.	1,246	85	-	1,331	-
SPG Housing, Inc.	5,269	353	17	5,605	22
Villa Garcia, Inc.	2,801	37	122	2,716	74
Villa San Pedro HDC, Inc.	6,861	147	76	6,932	57
Rotary Plaza/HACSC HDC, Inc.	95	20	-	115	-
Payment in lieu of taxes	1,830	121	-	1,951	-
Accrued vacation & sick leave	790	1,045	1,032	803	105
Accreted interest payable	460	24	44	440	-
Total Housing Authority	<u>26,572</u>	<u>3,524</u>	<u>1,456</u>	<u>28,640</u>	<u>774</u>
<i>FIRST 5:</i>					
Accrued vacation & sick leave	178	1	-	179	-
Total component units	<u>\$ 26,750</u>	<u>\$ 3,525</u>	<u>\$ 1,456</u>	<u>\$ 28,819</u>	<u>\$ 774</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(a) *Governmental Activities*

1998 YMCA Certificates of Participation

The 1998 YMCA Certificates of Participation Series A, issued on June 1, 1998, advance refunded all of the outstanding capital improvement bonds issued by the YMCA in 1988. In connection with the issuance, the County entered into lease and sublease agreements with the YMCA over the use and possession of the YMCA building. Annual lease payments through fiscal year 2008 secure the debt.

2006 Vector Control Certificates of Participation Series TT

During November 2006, the County issued 2006 Series TT Certificates of Participations in the amount of \$4,495 through California Special Districts Association Finance Corporation to finance the acquisition of an office building. The Certificate of Participations bear fixed interest rates ranging from 3.50% to 5.00%, and have a final maturity date of June 1, 2027.

Hospital Facilities Authority

The Santa Clara County – El Camino Hospital Facilities Authority (Hospital Facilities Authority) was organized in 1979 as a governmental agency by a Joint Exercise of Powers Agreement between the County and the El Camino Hospital District. The Authority was organized to finance the construction of a kidney dialysis facility, hospital administrative and storage facilities, and other improvements adjacent to El Camino Hospital, and to provide for the construction and renovation of the SCVMC. The El Camino facilities were completed in 1982 and the SCVMC facilities were substantially completed in 1990.

The 1985 Adjustable Convertible Extendable Securities (ACES) Lease Revenue Bonds were issued by the Hospital Facilities Authority to provide financing for the acquisition, construction, and renovation of various Santa Clara Valley Health and Hospital System projects, including the Valley Health Center, the Patient Care Tower, the Psychiatric Inpatient Facility, and the Cogeneration Facility. The debt is allocated between the County's governmental activities and SCVMC to reflect the use of bond proceeds to construct assets operated by the departments reported in the governmental activities and SCVMC, respectively. The bonds bear interest at an adjustable rate, which is determined weekly. The weekly rate is the rate that results in the market value of the bonds being equal to their par value. A remarketing agreement maintains an open market for the bonds. On March 6, 1998, the Hospital Facilities Authority engaged State Street Bank and Trust Company to provide an irrevocable, transferable letter of credit to support the principal and interest due on the bonds. The letter of credit, which has never been drawn upon, is reduced pro rata as principal payments are made. The amount of the irrevocable letter of credit agreement, as of June 30, 2007, was \$50,293.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Financing Authority Lease Revenue Bonds

The Santa Clara County Financing Authority (the Financing Authority) was formed in 1994 by a joint exercise of powers agreement between the County and the Santa Clara County Central Fire Protection District. The Financing Authority commenced operations in the County with the issuance of bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1985.

On July 6, 2000, the Financing Authority issued 2000 Series B bonds in the amount of \$71,920 to provide funds to advance refund and defease \$70,720 of the outstanding 1991 Certificate of Participation issued by the Public Facilities Corporation.

On December 18, 2003, the County through the Financing Authority issued 2003 Series C and D Lease Revenue Bonds in the amount of \$20,025 and \$21,350, respectively. These bonds were issued to embark on a number of long-term capital projects including the construction of a new courthouse in the City of Morgan Hill.

On September 1, 2004, the County through the Financing Authority issued 2004 Series A Lease Revenue Bonds in the amount of \$3,550 that bear interest that is set each week by the remarketing agent based upon prevailing interest rates for 7-day variable rate demand bonds of similar credit quality trading in the municipal market place during the week. The bonds were issued to refund and redeem the Housing Authority's 1993 Certificates of Participation (COPS). The bonds are reported as part of the long term liabilities on the County's statement of net assets and offset by a corresponding receivable from component unit balance. In addition, the Housing Authority has reported its lease obligation to the County as payable to primary government on its statement of net assets.

On May 19, 2005, the County through the Financing Authority issued 2005 Series H Lease Revenue Bonds in the amount of \$40,725. The bonds were issued to provide funds for the Charcot Center and the Morgan Hill Courthouse.

On October 19, 2006, the Financing Authority issued \$5,125 of 2006 Lease Revenue Bonds (2006 Bonds) on behalf of the Santa Clara County. The bond proceeds were used to provide additional financing for the renovation of an office building used by the Housing Authority of County of Santa Clara. The 2006 Bonds bear fixed interest rates of 5.00%, and are payable semi-annually commencing September 1, 2008 and mature on September 1, 2038.

The Business-type Activities section of this note at (b) describes the governmental activities' portions of the Financing Authority's 1994, 1997, 1998 and 2006 Lease Revenue Bonds.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Silicon Valley Tobacco Securitization Authority

In accordance with GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Silicon Valley Tobacco Securitization Authority (JPA) and the Santa Clara County Tobacco Securitization Corporation (Corporation) have been included in the basic financial statements as a blended component unit of the County. The Corporation borrowed from the JPA the proceeds of the Series 2007 Tobacco Settlement Asset-Backed Bonds issued by the JPA on January 12, 2007 for \$102,030 pursuant to a secured loan agreement. The Corporation then applied the loan proceeds to purchase County's portion of its rights, title and interest in the tobacco settlement revenues (TSRs) according to a purchase and sale agreement dated as of January 1, 2007 between the County and the Corporation (sale agreement). The Series 2007 bonds are primarily secured by a portion of TSRs that are payable to the County and sold to the Corporation pursuant to the sale agreement.

The first Series A Capital Appreciation Bonds (CABs) were issued for \$43,604 with an interest rate of 5.63%, final turbo redemption date on June 1, 2031 and due date of June 1, 2036. The second Series A CABs were issued for \$11,338 with an interest rate 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for \$13,618 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047.

Series B CABs were issued for \$4,408 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047.

Series C CABS were issued for \$20,161 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056.

Series D CABs were issued for \$8,901 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

In the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Securitization debt, neither the JPA, the County, nor the Corporation has any liability to make up any such shortfall.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(b) *Business-type Activities*

SCVMC

The 1985 ACES Lease Revenue Bonds were issued to provide financing for the acquisition, construction, and renovation of various SCVMC components, as previously described in the Governmental Activities section of this note at (a).

Financing Authority Lease Revenue Bonds

On December 15, 1994, the Financing Authority issued the 1994 Lease Revenue Bonds Series A and B. The proceeds financed the design, construction, remodeling, and equipping of existing and new medical facilities at the SCVMC. The County leases and then leases back from the Financing Authority, the projects financed along with the real property on which they are situated. Annual base rental payments from the County approximate the bonds' debt service requirements. If necessary, monies apportioned to the County in the State's Motor Vehicle License Fee Account can be used toward meeting the lease obligation. Debt payments on the Series A bonds are insured by a municipal bond insurance policy issued by Ambac Assurance Corporation.

Series A, initially issued for \$206,995, consists of serial and term bonds that can be redeemed early at specific dates at call rates varying from 100% to 102% of the face value of bonds maturing after November 15, 2005. The Series B bonds, issued for \$51,500, bear interest at variable rates set daily, weekly, semiannually, or on a term basis, as determined by the remarketing agent. Series B bonds also contain an early redemption provision, allowed at call rates of 100% of the bonds' face value, plus accrued interest. On October 1, 1997, the Financing Authority issued lease revenue bonds to advance refund and defease \$146,975 of outstanding 1994 Lease Revenue Series A Bonds.

The Financing Authority's 1997 Lease Revenue Bonds Series A, issued for \$188,405 on October 1, 1997, advance refunded \$146,975 of the 1994 Lease Revenue Series A Bonds and all \$16,405 of outstanding debt for the Public Facilities Corporation 1988 COPs (see (d) below). Debt payments on the 1997 Bond Series A are insured by a municipal bond insurance policy issued by Ambac Assurance Corporation.

The 1998 Lease Revenue Bonds Series A, issued for \$77,695 on September 1, 1998, advance refunded and defeased all outstanding 1992 Certificates of Participation (COPs). The issuance also prepaid a capital lease obligation and financed additional facilities for the Santa Clara County Central Fire Protection District. Debt payments on the 1998 Bond Series A are insured by a municipal bond insurance policy issued by Ambac Assurance Corporation.

On March 2, 2006, the Financing Authority issued Lease Revenue Bonds 2006 Series I and 2006 Series J in the amount of \$149,740 and \$53,950, respectively. The bonds were issued to finance the construction costs of the County Crime Laboratory Facilities, and the Valley Health Clinic at Fair Oaks and Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The 2006 Series I bonds, bear fixed interest rates ranging from 3.50% to 5.00%, and have a final maturity date of May 15, 2031. The Series 2006 J bonds, initially bear variable interest based on the applicable Auction Rate Securities Rate and have a final maturity date of May 15, 2036.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The division of the 1985, 1994, 1997, 1998 and 2006 Lease Revenue Bonds Series between the governmental type activities and the SCVMC is based on the usage of bond proceeds by the governmental activities and SCVMC as follows:

	Governmental Activities	SCVMC Business-type Activities
Lease Revenue Bonds:		
1985 ACES	15.9%	84.1%
1994 Series A and B	1.4%	98.6%
1997 Series A	9.3%	90.7%
1998 Series A	83.1%	16.9%
2006 Series I	58.5%	41.5%

On May 19, 2005, the County through the Financing Authority issued lease revenue bonds 2005 Series E, 2005 Series F and 2005 Series G in the amount of \$11,110, \$71,025 and \$71,025, respectively. The bonds were issued to provide funds for the Valley Specialty Center.

Interest Rate Swap on 2005 Lease Revenue Bonds Series F and G

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2005, the Financing Authority entered into interest rate swap agreements with Citibank N.A. in connection with its \$71,025 Series F and \$71,025 Series G variable rate lease revenue bonds (the bonds). The intention of the swaps was to effectively change the Financing Authority’s variable interest rates on the bonds to a synthetic fixed rate of 3.185%.

Significant Terms. The bonds and related swap agreements mature on May 15, 2035, and the swaps’ notional amount of \$142,050 matches the \$142,050 par amount of the variable rate bonds. The swaps were entered into at the same time the 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 amortize. Under the swaps, the Financing 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%.

Credit Risk. As of June 30, 2007, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value. The Authority does bear the risk that the counterparty will not be able to make the offsetting payments on the bonds. As of June 30, 2007, Citibank N.A.’s ratings were “Aaa” by Moody’s Investors Service, “AA+” by Standard and Poor’s and “AA+” by Fitch Ratings.

Fair Value. The swaps had a combined aggregate negative fair value of \$5,658 as of June 30, 2007. Since coupons on the Financing Authority’s auction rate securities adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swaps using market data and the terms of the swaps, which include the expectations of the probability of occurrence of certain underlying events as defined in the swaps’ documentation.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Basis Risk. The swaps expose the Financing Authority to basis risk should the relationship between LIBOR and weekly auction rate converge, changing the synthetic rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority’s bonds during the course of the year, the synthetic fixed rate for the fiscal year ended June 30, 2007 was 3.599% and 3.499% for Series F and Series G, respectively.

Termination Risk. The Financing 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 Financing 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 Financing Authority’s rating of long-term, 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.

Swap Payments and Associated Debt. Using rates as of June 30, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As interest rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	2005 Lease Revenue Bonds Series F				2005 Lease Revenue Bonds Series G				Total Interest
	Principal	Variable	Net	Subtotal	Principal	Variable	Net	Subtotal	
		Interest (1)	Swap Interest (2)			Interest (1)	Swap Interest (2)		
2008	\$ -	\$ 2,649	\$ (107)	\$ 2,542	\$ -	\$ 2,578	\$ (107)	\$ 2,471	\$ 5,013
2009	-	2,656	(107)	2,549	-	2,585	(107)	2,478	5,027
2010	-	2,656	(107)	2,549	-	2,585	(107)	2,478	5,027
2011	-	2,656	(107)	2,549	-	2,585	(107)	2,478	5,027
2012	1,975	2,693	(108)	2,585	1,975	2,622	(108)	2,514	5,099
2013-2017	11,075	12,110	(487)	11,623	11,075	11,744	(487)	11,257	22,880
2018-2022	13,000	9,850	(396)	9,454	13,000	9,627	(396)	9,231	18,685
2023-2027	15,150	7,294	(293)	7,001	15,150	7,097	(293)	6,804	13,805
2028-2032	17,750	4,250	(171)	4,079	17,750	4,136	(171)	3,965	8,044
2033-2036	12,075	878	(35)	843	12,075	854	(35)	819	1,662
	<u>\$ 71,025</u>	<u>\$ 47,692</u>	<u>\$ (1,918)</u>	<u>\$ 45,774</u>	<u>\$ 71,025</u>	<u>\$ 46,413</u>	<u>\$ (1,918)</u>	<u>\$ 44,495</u>	<u>\$ 90,269</u>

(1) Variable interest on the 2005 Lease Revenue Bonds Series F & G are estimated using interest rate at June 30, 2007 of 3.75% and 3.65%, respectively.

(2) Net swap interest on the 2005 Lease Revenue Bonds Series F & G is estimated using USD-LIBOR-BBA rate at June 30, 2007 of 5.320%. Net swap interest at June 30, 2007 is calculated as follows: 3.185% minus (5.320% * 56.5% + 0.33%) equals to -0.151%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Airport

On July 1, 2003, the Association of Bay Area Governments (ABAG) issued Lease Revenue Bonds, Series 2002-1 in the amount of \$13,370. These bonds were issued to finance or refinance certain capital improvements within their geographical boundaries. On June 4, 2002, the County Board of Supervisors approved a resolution to enter into a lease agreement with ABAG for \$6,780 of this debt via a lease/leaseback arrangement of one or more properties to ABAG. The proceeds of the debt provided financing for the acquisition, construction, and renovation of certain new capital improvements in the Reid Hillview Airport as well as for Airport security.

(c) Repayment Requirements

As of June 30, 2007, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding accrued vacation and sick leave, accrued litigation liability, insurance claims payable, capital leases obligations and net pension obligation.

Governmental Activities

Fiscal year ending June 30:	Lease Revenue Bonds (1)		Tobacco Securitization Asset-Backed Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 11,861	\$ 12,512	\$ -	\$ -	\$ 425	\$ 215
2009	14,949	11,932	-	-	150	197
2010	15,692	11,233	-	-	160	190
2011	16,465	10,502	-	-	165	184
2012	17,598	9,738	-	-	170	179
2013-2017	71,821	37,584	-	-	945	796
2018-2022	33,909	25,153	-	-	1,180	559
2023-2027	42,063	16,965	-	-	1,505	233
2028-2032	44,162	7,507	-	-	-	-
2033-2037	10,955	1,079	43,604	178,571	-	-
2038-2042	995	50	11,339	66,321	-	-
2043-2047	-	-	18,025	158,675	-	-
2047-2052	-	-	-	-	-	-
2053-2056	-	-	29,062	648,788	-	-
Total	\$ 280,470	\$ 144,255	\$ 102,030	\$ 1,052,355	\$ 4,700	\$ 2,553

Lease revenue bonds, certificates of participation retirement and related interest payments are serviced by revenues generated from lease payments made by the General Fund on leased facilities. Tobacco securitization asset-backed bonds are serviced by future tobacco settlement revenues made by participating cigarette manufacturers. In addition, accrued vacation and sick leave, accrued litigation liability, insurance claims payable and capital leases are generally liquidated by the General Fund.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Business-type Activities

Fiscal year ending June 30:	SCVMC		Airport	
	Lease Revenue Bonds (1)		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 11,634	\$ 23,636	\$ 265	\$ 272
2009	17,486	23,014	155	264
2010	18,613	22,058	160	259
2011	19,855	21,052	160	252
2012	20,813	20,036	170	246
2013-2017	104,073	84,848	905	1,112
2018-2022	109,465	61,220	950	901
2023-2027	113,476	35,288	1,210	632
2028-2032	60,943	20,442	1,545	289
2033-2036	68,350	6,055	355	9
Total	<u>\$ 544,708</u>	<u>\$ 317,649</u>	<u>\$ 5,875</u>	<u>\$ 4,236</u>

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Lease Revenue Bonds Series B, the 2003 Lease Revenue Bonds Series D, the 2004 Lease Revenue Bonds Series A, the 2005 Lease Revenue Bonds Series F, the 2005 Lease Revenue Bonds Series G, the 2005 Lease Revenue Bonds Series H and the 2006 Lease Revenue Bonds Series J are estimated using interest rate at June 30, 2007 of 3.69%, 3.68%, 3.70%, 3.71%, 3.75%, 3.65%, 3.75%, and 3.75%, respectively.

Lease revenue bonds retirements and related interest payments are serviced by revenues generated by the SCVMC.

(d) Legal Debt Margin

As of June 30, 2007, the County's legal debt limit (1.25% of the total assessed secured valuation) was \$3.27 billion. At June 30, 2007, the County did not have any debt applicable to the limit outstanding.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(e) Arbitrage Rebate Payable

Section 148 of the Internal Revenue Code requires issuers of most types of tax-exempt bonds to rebate investment earnings in excess of bond yield to the federal government in installment payments made at least once every five years, with the final installment made when the last bond in the issue is redeemed. The following bond issues are subject to this requirement:

- 1994 Lease Revenue Bonds Series A & B
- 1997 Lease Revenue Bonds Series A
- 1998 Lease Revenue Bonds Series A
- 2000 Lease Revenue Bonds Series B
- 2003 Lease Revenue Bonds Series C & D
- 2005 Lease Revenue Bonds Series E, F, G & H
- 2006 Lease Revenue Bonds Series I & J

A consulting firm calculates annual computation of all rebate requirements. Amounts in excess of allowable investment earnings are held pursuant to the Trust Indentures. At June 30, 2007, arbitrage rebate payable in the amount of \$1,291 has been accrued in the government-wide statements – governmental activities under the “Due to other governmental agencies” financial statement caption, while \$3,163 has been accrued in the government-wide statements – business-type activities and the SCVMC enterprise fund under the “Due to other governmental agencies” financial statement caption.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(f) Housing Authority Long-term Obligations

Outstanding long-term obligations for the Housing Authority consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
Notes payable:					
City of San Jose (Lucretia Gardens)	8/1/2038	0.00%	(4)	\$ 1,114	\$ 1,040
City of San Jose (Julian Gardens)	8/1/2038	0.00%	(4)	319	262
Redevelopment Agency of the City of Santa Clara (Deborah & Miramer Properties)	4/24/2036	0.00%	(4)	270	270
Redevelopment Agency of the City of Morgan Hill	6/15/2022	1.00%	(4)	425	425
County of Santa Clara (San Pedro Gardens)	8/28/2012	0.00%	3/year	50	20
City of San Jose (Morrone Gardens)	9/23/2025	4.00%	20/year	973	973
Comerica (Julian Office Renovations)	12/30/2012	Prime minus 1.25%	33/month	1,692	1,692
				<u>4,843</u>	<u>4,682</u>
Bonds payable:					
Affordable Housing Agency	10/1/2024	2.00%-4.95%	170-335	4,550	4,065
Bracher HDC, Inc.					
Redevelopment Agency of the City of Santa Clara (principal)	8/1/2007	2.00%	(4)	1,246	1,246
Redevelopment Agency of the City of Santa Clara (accrued interest)				-	85
				<u>1,246</u>	<u>1,331</u>
SPG Housing, Inc.					
Citibank Mortgage	10/1/2026	8.79%	(1)	919	899
City of San Jose (principal)	12/1/2020	8.00%	(4)	1,400	1,400
City of San Jose (accrued interest)				-	3,306
				<u>2,319</u>	<u>5,605</u>
Villa Garcia, Inc.					
HUD Flexible Subsidy Notes	11/1/2022	1.00%	(4)	1,416	1,416
GMAC Commercial Mortgage	3/1/2012	7.00%	(1)	1,254	460
County of Santa Clara (principal)	6/1/2012	3.00%	(4)	100	100
City of San Jose (principal)	4/1/2022	3.00%	(2)	514	514
Accrued interest				-	226
				<u>3,284</u>	<u>2,716</u>
Villa San Pedro HDC, Inc.					
HUD Flexible Subsidy Note	At sale or refinancing	0.00%	(4)	800	800
HUD Mortgage	2/1/2012	3.00%	(1)	1,162	307
California Department of Housing and Community Development (principal)	9/1/2037	3.00%	(4)	4,157	4,157
City of San Jose (principal)	9/1/2041	3.00%	(3)	692	679
Accrued interest				-	989
				<u>6,811</u>	<u>6,932</u>
Rotary Plaza/HACSC, HDC, Inc					
County of Santa Clara Note (principal)	5/29/2033	6.00%	(4)	95	95
County of Santa Clara Note (accrued interest)				-	20
				<u>95</u>	<u>115</u>
Total Housing Authority				<u>\$ 23,148</u>	<u>\$ 25,446</u>

- (1) Monthly amortization
- (2) 25% of Net Cash Flow
- (3) Deferred for 21 years
- (4) Deferred until maturity

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The debt service requirements to maturity for the Housing Authority long-term obligations are as follows, excluding accrued vacation and sick leave and other payables:

Fiscal year ending June 30:	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 346	\$ 151	\$ 170	\$ 171
2009	341	127	180	166
2010	341	103	185	160
2011	341	80	190	154
2012	340	56	195	148
2013-2017	3	216	1,105	622
2018-2022	425	216	1,385	362
2023-2027	973	88	655	49
2028-2032	-	-	-	-
2033-2037	270	-	-	-
2038-2039	1,302	-	-	-
Total	<u>\$ 4,682</u>	<u>\$ 1,037</u>	<u>\$ 4,065</u>	<u>\$ 1,832</u>

The debt service requirements to maturity for the Housing Authority's component unit's long-term obligations are as follows, excluding HUD flexible subsidy notes and accrued interest:

Fiscal year ending December 31:	Bracher HDC, Inc.		SPG Housing, Inc.		Villa Garcia, Inc.	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ -	\$ 22	\$ 62	\$ 74	\$ 36
2008	-	-	24	60	81	30
2009	-	-	26	58	88	23
2010	-	-	27	57	95	15
2011	-	-	29	55	104	6
2012-2016	-	-	181	239	118	-
2017-2021	-	-	1,657	164	-	-
2022-2026	-	-	333	58	514	-
2027-2031	-	-	-	-	-	-
2032-2036	1,246	-	-	-	-	-
2037-2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
Total	<u>\$ 1,246</u>	<u>\$ -</u>	<u>\$ 2,299</u>	<u>\$ 753</u>	<u>\$ 1,074</u>	<u>\$ 110</u>

Fiscal year ending December 31:	Villa San Pedro, Inc.		Rotary Plaza, Inc.	
	Principal	Interest	Principal	Interest
2007	\$ 57	\$ 8	\$ -	\$ -
2008	59	7	-	-
2009	60	5	-	-
2010	62	3	-	-
2011	62	1	-	-
2012-2016	7	1	-	-
2017-2021	-	-	-	-
2022-2026	-	-	-	-
2027-2031	-	-	-	-
2032-2036	-	-	95	-
2037-2041	4,157	-	-	-
2042	679	-	-	-
Total	<u>\$ 5,143</u>	<u>\$ 25</u>	<u>\$ 95</u>	<u>\$ -</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(9) Segment Information (County Sanitation Districts 2 - 3)

The County Sanitation Districts 2 - 3 is responsible for collecting, processing and disposal of sewer for the County. During the current fiscal year, the County Sanitation District evaluated its proportionate share of costs for new construction of joint use sewer lines and the yearly return of investment charges owed to the City of San Jose and restated its June 30, 2006 net assets balance and related accounts payable balance in the amount of \$318 to reflect the associated costs.

Summary information for the District is presented below.

<u>Condensed Statement of Net Assets</u>		<u>Condensed Statement of Revenues, Expenses and Changes in Net Assets</u>	
Assets:		Operating revenues (expenses):	
Current and other assets	\$ 9,150	Operating revenues	\$ 1,866
Capital assets	<u>1,289</u>	Operating expenses	<u>(2,514)</u>
Total assets	<u>10,439</u>	Operating loss	(648)
Liabilities:		Nonoperating revenues (expenses):	
Current liabilities	<u>1,521</u>	Investment income	413
Total liabilities	<u>1,521</u>	Other, net	<u>17</u>
Net assets:		Total nonoperating revenues (expenses), net	<u>430</u>
Invested in capital assets, net of related debt	1,289	Change in net assets	<u>(218)</u>
Unrestricted	<u>7,629</u>	Net assets, beginning of year, as previously reported	9,454
Total net assets	<u>\$ 8,918</u>	Prior period adjustment	<u>(318)</u>
		Net assets, beginning of year, as restated	<u>9,136</u>
		Net assets, end of year	<u>\$ 8,918</u>
<u>Condensed Statement of Cash Flows</u>			
Net cash provided by (used in):			
Operating activities	\$ (237)		
Investing activities	<u>406</u>		
Change in cash and cash equivalents	169		
Cash and cash equivalents, beginning of year	<u>8,867</u>		
Cash and cash equivalents, end of year	<u>\$ 9,036</u>		

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(10) Hospital Program Revenues

(a) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered at the SCVMC, including estimated retroactive adjustments under reimbursement agreements with third-party payers (contractual allowances) and allowances for the uncollectible portion of patient service revenues (bad debts provision).

Net patient service revenues are calculated for the fiscal year ended June 30, 2007 as follows:

Patient service revenues	\$ 1,887,677
Contractual allowances	(1,223,202)
Bad debts provision	<u>(21,581)</u>
Net patient service revenues	<u>\$ 642,894</u>

Differences between final settlements with third-party payers and the estimate originally recorded are included in operations in the year in which the settlement amounts become known.

A substantial portion of SCVMC's net patient service revenue is derived from services provided to patients eligible for benefits under the Medi-Cal and Medicare programs. Revenue from the Medi-Cal and Medicare programs represents approximately 56% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2007. Revenue from the Medicare program represents approximately 16% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2007. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(c)).

California's Medi-Cal Hospital/Uninsured Care Demonstration Project ("Demonstration") is a system for paying selected hospitals for hospital care provided to Medi-Cal and uninsured patients initiated in fiscal year 2006. The Demonstration was negotiated between the State of California's Department of Health Services ("SDHS") and the federal Centers for Medicare and Medicaid Services ("CMS") in 2005, and covers the period from July 1, 2005 to June 30, 2010. The five-year Demonstration affects payments for 23 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients. The Medicaid Demonstration restructures inpatient hospital fee-for-service (FFS) payments and Disproportionate Share Hospital (DSH) payments, as well as the financing method by which the State draws down federal matching funds. Under the Demonstration, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services (exclusive of physician component); 2) DSH payments; and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which is capped at \$586 million for FY 2005-06. The nonfederal share of these three types of payments will be provided by the public hospitals rather than the State, primarily through certified public expenditures (CPE) whereby the hospital would expend its local funding for services to draw down the federal financial participation (FFP), currently provided at a 50% match. For the inpatient hospital cost-based reimbursement, each hospital will provide its own CPE and receive all of the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals will be used in the aggregate to draw down the federal match.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(10) Hospital Program Revenues (Continued)

(b) Other Program Revenues

The SCVMC also receives significant amounts of revenue under Proposition 99, which imposes an additional state excise tax on cigarettes and other tobacco products. The increased taxes on tobacco products generate revenue for health care related service, research, education, and public resources. AB75 provides for allocation, by the Department of Health Services using data from the Office of Statewide Health Planning and Development annual reports, based upon SCVMC's share of the financial burden for providing care to persons who are uninsured or otherwise unable to pay for care.

Amounts included in the SCVMC enterprise fund's other program revenues and the business-type activities as operating grants and contributions on the statement of activities for the fiscal year ended June 30, 2007, are summarized as follows:

Proposition 99	\$ 2,033
Other	7,105
	7,105
Total	\$ 9,138

(c) Capital Contributions

SB1732 provides qualifying hospitals reimbursement for a portion of the debt service of qualified capital projects, in addition to their Medi-Cal contract reimbursement. SB1732 revenues are classified as capital contributions for GAAP reporting purposes.

(d) Charity Care

The SCVMC has a policy for providing charity care to patients who are otherwise unable to afford health care services. Generally, charity care recipients are those patients for which an indigency standard has been established and for which the patient qualifies. Inability to pay may be determined through an interview process by the SCVMC, by the Department of Revenue, or by an outside collection agency. Determination of charity care status may be made prior to or at the time of service, or any time thereafter. The total amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2007, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$ 131,241
Percentage of operating expenses	16%

Charity care at cost is calculated excluding the impact of other revenue received listed above.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(11) Net Assets/Fund Balances

The government-wide and proprietary funds financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category represents net assets with external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Restricted net assets include restrictions for capital facilities, debt service, housing programs, roads and other purposes.

Unrestricted Net Assets – This category represents net assets of the County not restricted for any project or purpose.

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

As of June 30, 2007, reservations of fund balance included:

Encumbrances, Inventories, and Other Assets – These reservations indicate the portion of fund balance which is unavailable for appropriation, or amounts legally segregated for a specific future use.

Debt Service – These reservations indicate fund balance reserved for debt service represents resources legally restricted for the retirement of long-term debt.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for support of the SCVMC or general contingencies. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Unreserved fund balances for governmental funds are comprised of the following:

	General Fund	Nonmajor Funds	Governmental Funds
Designated for:			
SCVMC	\$ 101,294	\$ -	\$ 101,294
Measure B program	61,868	-	61,868
Mental Health	14,219	-	14,219
Litigation	6,600	-	6,600
Fiduciary activities/contingencies	48,238	-	48,238
Roads	-	1,111	1,111
County Library	-	10,547	10,547
Fire Districts	-	9,677	9,677
Housing and Community Development	-	100	100
Environment Health	-	5,434	5,434
Vector Control	-	6,121	6,121
Other	172	-	172
Undesignated	201,824	205,800	407,624
Total	<u>\$ 434,215</u>	<u>\$ 238,790</u>	<u>\$ 673,005</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(12) Employee Benefit Plans

(a) *California Public Employees' Retirement System*

Plan Description

All eligible County employees participate in the State's Public Employees' Retirement System (PERS). The County participates in two plans with PERS. The first plan covers the Santa Clara County Central Fire District (Central Fire) and the second plan covers all remaining eligible County employees. 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 may be obtained from their executive office at 400 Q Street, Sacramento, California 95814. A separate report for the County's plan in PERS is not available.

Effective with the June 30, 2003 valuation, PERS converted the Central Fire's defined benefit retirement plan from an agent multiple-employer to a cost sharing multiple-employer. The Central Fire's retirement plan is now under the PERS Miscellaneous 2% at 55 Risk Pool. The County employees plan is an agent multiple-employer defined benefit retirement plan. PERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

Funding Policy

All County employee participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The County made 82.1% of the employees' required payroll contributions for fiscal year 2007. The County is also required to contribute at an actuarially determined rate. The County's fiscal year 2007 required contributions as a percentage of annual covered payrolls were 11.923% for miscellaneous employees and 25.831% for safety employees in the County plan and 13.934% for miscellaneous employees and 26.532% for safety employees in the Central Fire plan. The contribution requirements of plan members and the County are established and may be amended by PERS.

The Central Fire's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 were \$7,305, \$8,810 and \$8,528, respectively, which equal to the required contributions for each year.

During fiscal year 2005, PERS granted the County a \$35.0 million pension plan contribution deferral. The \$35.0 million deferral will increase the County's contribution rates beginning in fiscal year 2008. This increase is due to a ten-year amortization of the restructured rate and the contribution rates are estimated to increase by 0.43% and 0.59% for miscellaneous and safety employees, respectively. During fiscal year 2007, interest amounted to \$2,923 was accrued and added to the outstanding pension plan contribution deferral balance.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual Pension Costs – County Plan

The required contribution was determined as part of the June 30, 2004 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 7.75%; (b) inflation of 3.00%; and (c) projected salary increases of 3.25% to 14.45% depending on Age, Service, and type of employment. 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 payrolls on a closed basis. There are 27 years remaining in the amortization period at June 30, 2007.

The County’s changes in net pension obligation for the year ended June 30, 2007, were as follows:

Annual required contribution	\$ 166,057
Interest on beginning net pension obligation	2,923
Annual pension cost	<u>168,980</u>
Contributions made	<u>(166,057)</u>
Change in net pension obligation	2,923
Net pension obligation, beginning of year	<u>37,712</u>
Net pension obligation, end of year	<u><u>\$ 40,635</u></u>

Three-year trend information for the County (excluding the Central Fire) is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	\$ 168,980	98%	\$ 40,635
6/30/2006	153,803	98%	37,712
6/30/2005	112,769	69%	35,000

(b) Post-retirement Health Care Benefits

Plan Description

All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the County’s Retiree Health Care Program upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50. For all of the above, employees must retire from PERS directly from County.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

For the 631 surviving retirees who retired on or before December 5, 1983, benefits payments cover premium of any medical program available to active employees. Actual County contributions to this program were \$0 in fiscal year 2007. For the 6,081 surviving retirees who retired after December 5, 1983, benefits are limited to covering the premiums of the lowest cost medical plan. Participants may obtain additional coverage for themselves or their spouses and qualified dependents by paying the incremental costs. Actual County contributions to the program for these participants and for future retirees totaled approximately \$41,097 in fiscal year 2007. This amount is less than the normal cost equivalent and does not address the amortization of the unfunded liability.

Upon reaching age 65, the retiree is also eligible for full or partial reimbursement of Medicare Part B premiums. During fiscal year 2007, 1,226 participants received approximately \$723 in actual Medicare Part B reimbursements.

Funding Policy (Unaudited)

The County advance funds all post-retirement medical benefits on an actuarially determined basis. An actuarial valuation of such benefits, as of June 30, 2007, estimated the following:

Actuarial accrued liability	\$ 1,261,000
Net assets available for benefits	<u>(396,000)</u>
Unfunded portion of actuarial accrued liability	<u>\$ 865,000</u>

The study was not computed in accordance with the parameters of GASB Statement No. 45 and used the entry age normal actuarial cost method. The actuarial present value of the projected benefits of each employee is allocated on a level basis over the earnings or service of the employee between entry age and assumed exit age. A 24.4-year County career, with an average of 10.3 years employment, is expected of the current active population. The valuation assumed a discount rate of 7.75% and annual salary increases of 3.25%.

Various labor contracts stipulated the post-retirement health care benefits described above; however, a formal trust for the plan does not exist. County contributions are charged against the current available resources of budgeted funds. The County administers the post-retirement health care benefits in the Retiree Healthcare Internal Service Fund.

(13) Risk Management

The County is exposed to various risks of loss related to torts; medical malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees and retirees. The County is self-insured for its general liability, workers' compensation, unemployment, basic life insurance, dental, retiree benefits, medical malpractice liability, and automobile liability. 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' Excess Insurance Authority (Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities. The Authority is governed by a Board of Directors consisting of representatives of its member entities.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(13) Risk Management (Continued)

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained ⁽¹⁾	Purchase Insurance Policies (per occurrence)
Automobile	Up to \$2,000	\$3,488 per occurrence	\$2,000 to \$35,000
General Liability	Up to \$2,000	\$3,488 per occurrence	\$2,000 to \$35,000
Medical Malpractice	Up to \$500	\$1,500 per occurrence	\$500 to \$22,000
Workers' Compensation	Up to \$4,000	\$1,000 per occurrence	\$4,000 to \$210,000
Property Damage	Up to \$50 ⁽²⁾ (This is deductible)	\$3,000 per occurrence \$8,000 aggregate	Up to \$1,800,000 ⁽³⁾
Earthquake	5% of property value \$100 minimum deductible	\$2,000 per occurrence \$6,000 aggregate	Up to \$412,500 ⁽⁴⁾

⁽¹⁾ The self-retained layer is required by the insurance company and acts as an additional amount to pay claims before a loss is paid by the insurance company. This self-retained layer is contributed by the member entities and remains their assets. Once the self-retained layer is exhausted, the insurance company pays all claims above the County's self-insurance amount. Any funds left in the self-retained layer can be used to fund self-retained amounts in future years.

⁽²⁾ Deductible for the Fairgrounds is \$5 per occurrence. All properties are insured at full replacement value.

⁽³⁾ Insured values are split between 3 schedules with limits of \$600,000 each for a total of \$1,800,000.

⁽⁴⁾ Insured values are split between 3 schedules with limits of \$60,000 each, plus a rooftop of \$232,500, for a total of \$412,500.

There have been no settlement amounts exceeding commercial or Insurance Authority insurance coverage since self-insurance was introduced in 1978.

It is the County's practice to obtain full actuarial studies annually for the self-insured automobile liability, general liability, medical malpractice, and workers' compensation liability issues. The unpaid claims liabilities included in the self-insurance internal service funds for these risks are based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. 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.

The County annually changes its interest rate for estimating its liability for General, Automobile and Medical Malpractice to approximate the current investment rate of return. In prior year, management used actuarial estimates based on the expected value discounted at 4.5% for General and Auto Liability, and 5.0% for Malpractice to estimate its liability for claims. In the current year, management used actuarial estimates based on the expected value discounted at 5.0% for General and Automobile and 5.0% for Medical Malpractice claims. In addition, workers' compensation liability is discounted at 3.0%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(13) Risk Management (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>2007</u>	<u>2006</u>
Unpaid claims, beginning of year	\$ 104,046	\$ 105,483
Incurred claims and changes in estimate	46,911	46,443
Claim payments	<u>(48,525)</u>	<u>(47,880)</u>
Unpaid claims, end of year	<u>\$ 102,432</u>	<u>\$ 104,046</u>

Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience, and number of participants. Premiums paid by the Insurance Fund totaled \$10,657 for the fiscal year ended June 30, 2007.

(14) Commitments and Contingencies

(a) Commitments

The County has various noncancelable operating leases primarily for office space and equipment (accounted for principally in the General Fund). Approximate future minimum operating lease commitments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2008	\$ 38,362	\$ 7,067	\$ 45,429
2009	38,301	7,126	45,427
2010	38,990	7,348	46,338
2011	39,300	7,571	46,871
2012	36,869	7,833	44,702
2013-2017	92,418	4,043	96,461
2018-2022	78,327	-	78,327
2023-2027	<u>3,243</u>	<u>-</u>	<u>3,243</u>
Total	<u>\$ 365,810</u>	<u>\$ 40,988</u>	<u>\$ 406,798</u>

Rent expense for fiscal year 2007 was approximately \$45,807 and \$7,113 for the governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2007
 (Dollars in thousands)

(14) Commitments and Contingencies (Continued)

The County also leases various properties to business and other governmental agencies (accounted for principally in the General Fund). The future minimum payments to be received are as follows:

<u>Fiscal year ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2008	\$ 4,576	\$ 477	\$ 5,053
2009	3,985	117	4,102
2010	4,106	86	4,192
2011	4,181	88	4,269
2012	4,191	89	4,280
2013-2017	17,734	474	18,208
2018-2022	19,472	361	19,833
2023-2027	8,962	-	8,962
2028-2032	10,336	-	10,336
Total	<u>\$ 77,543</u>	<u>\$ 1,692</u>	<u>\$ 79,235</u>

Rent income for fiscal year 2007 was approximately \$4,503 and \$2,720 for the governmental activities and business-type activities, respectively.

(b) *Litigation*

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2007, the County had accrued amounts which management believes are adequate to provide for claims and litigation, which arose during the normal course of activities. There are other outstanding claims and litigation for which County management believes the ultimate outcome of these claims and litigation will not significantly impact the County's financial position.

(c) *Patient Service Revenue and Receivables*

The SCVMC grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The SCVMC's Medicare and Medi-Cal cost reports have been audited by the fiscal intermediary through June 30, 2002 and June 30, 2003, respectively. As such, the cost reports for certain other prior years are in various stages of review by third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes it has adequately provided for any potential liabilities that may arise from the intermediaries' audits.

Net receivables from patients and third-party payers at June 30, 2007, are summarized as follows:

Table with 2 columns: Category and Amount. Rows include Medicare (\$22,071), Medi-Cal (54,236), Insurance and other third-party payers (19,143), Private patients (2,306), and Total (\$97,756).

(d) Seismic Safety Building Standards

The County is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. The County is currently reviewing the SB 1953 compliance requirements and developing multiple plans of action to achieve such compliance, the estimated time frame for complying with such requirements, and the cost of performing necessary remediation of certain of the properties. The County estimates the total remediation cost to make SCVMC SB 1953-compliant will be approximately \$1.2 billion.

In fiscal year 2007 the County sold its right to a portion of its tobacco settlement revenues. The sale consisted primarily of tobacco settlement revenues due to the County on and after January 1, 2026. The proceeds from the sale, net of issuance cost, in the amount of \$100,000 were transferred to the SCVMC and are restricted to meeting the seismic requirements of SB 1953.

(e) Single and Multiple Family Mortgage Revenue Bonds

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2007, the outstanding balance of these bonds is \$42,461. Single family mortgage revenue bonds were issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing residences. The purpose of this program is to provide below market interest rate home mortgages to persons who are unable to qualify for conventional mortgages at market rates. Multiple family mortgage revenue bonds were issued to provide financing to developers of specified multiple family housing projects. These developers agree to rent a percentage of units to qualified families at below market rates. The bonds are not considered obligations of the County, and are payable solely from payments made on the related secured mortgage loans.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2007
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

(f) Conduit Debt -Insured Revenue Bonds

On March 16, 2007, the Financing Authority served as the conduit issuer of 2007 Insured Revenue Bonds Series A (\$50,000), Series B (\$50,000), and Series C (\$50,000) in order to provide funds for the construction, renovation, and improvement of El Camino Hospital, including a portion of the construction of a new five-level main hospital building and purchasing and installing equipment. The Financing Authority and the County has no obligation for these bonds as they are secured under the provisions of the Indenture and will be payable solely from payment 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.

(15) Subsequent Events

Issuance of Taxable Pension Obligation Bonds

In July 2007, the County issued \$389,485 of taxable pension obligation bonds (2007 Pension Bonds). The bond proceeds were used to refinance a portion of the County's statutory obligation to make payments to PERS for certain amounts arising as a result of retirement benefits accruing to members of the PERS. The 2007 Pension Bonds, which bear interest rate from 5.34% to 6.14%, are payable semi-annually commencing February 1, 2008 and mature on August 1, 2029.

Issuance of Series 2007 K Lease Revenue Bonds

In August 2007, the Financing Authority issued \$93,540 of 2007 Series K Lease Revenue Bonds (2007 K Bonds) on behalf of the County. The bond proceeds will be used for (i) the acquisition, site preparation, construction, furnishing and equipping of the Fleet Facility; (ii) the acquisition, site preparation, construction, furnishing and equipping of the Health clinic, including a nearby parking garage; and (iii) the seismic retrofitting of the Los Gatos Courthouse and of the Hall of Justice – West. The 2007 K Bonds bear fixed interest rates ranging from 4.00% to 5.00%, and have a final maturity date of May 15, 2037.

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COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Schedule of Funding Progress
 June 30, 2007
 (Dollars in thousands)

Schedule of Funding Progress (County, excluding Central Fire):

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability- Entry Age</u>	<u>Unfunded Actuarial Accrued Liability – UAAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
6/30/2006	\$ 5,089,040	\$ 5,977,492	\$ 888,452	85.1%	\$ 1,154,120	77.0%
6/30/2005	4,406,332	5,361,206	954,874	82.2%	1,082,170	88.2%
6/30/2004	4,106,196	4,905,804	799,608	83.7%	1,059,839	75.4%

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COUNTY OF SANTA CLARA

General Fund

The General Fund is the general operating fund of the County. It accounts for all financial activities except those required to be accounted for in another fund. The accompanying Budgetary Comparison Schedule represents the primary expense classification of services provided by the County through the General Fund.

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Budgetary fund balances, beginning of year	\$ 588,513	\$ 588,513	\$ 588,513	\$ -
Resources (inflows):				
Taxes	600,366	593,766	596,235	2,469
Licenses and permits	12,138	12,268	12,451	183
Fines, forfeitures, and penalties	48,181	49,557	44,672	(4,885)
Interest and investment income	26,503	30,632	37,444	6,812
Intergovernmental revenues	1,049,648	1,090,050	1,046,635	(43,415)
Charges for services	141,891	138,011	131,784	(6,227)
Other revenue	39,069	55,367	59,536	4,169
Other financing sources	4,000	6,000	4,000	(2,000)
Interfund transfers	28,029	263,784	264,809	1,025
Total resources (inflows) available for appropriation	<u>1,949,825</u>	<u>2,239,435</u>	<u>2,197,566</u>	<u>(41,869)</u>
Charges to appropriations (outflows):				
General government:				
Supervisory District 1				
Salaries and benefits	920	935	914	21
Services and supplies	54	54	19	35
Total Supervisory District 1	<u>974</u>	<u>989</u>	<u>933</u>	<u>56</u>
Supervisory District 2				
Salaries and benefits	920	935	823	112
Services and supplies	78	63	48	15
Total Supervisory District 2	<u>998</u>	<u>998</u>	<u>871</u>	<u>127</u>
Supervisory District 3				
Salaries and benefits	920	944	927	17
Services and supplies	56	46	42	4
Total Supervisory District 3	<u>976</u>	<u>990</u>	<u>969</u>	<u>21</u>
Supervisory District 4				
Salaries and benefits	893	865	723	142
Services and supplies	82	124	110	14
Total Supervisory District 4	<u>975</u>	<u>989</u>	<u>833</u>	<u>156</u>
Supervisory District 5				
Salaries and benefits	920	865	834	31
Services and supplies	57	125	125	-
Total Supervisory District 5	<u>977</u>	<u>990</u>	<u>959</u>	<u>31</u>
Clerk - Board of Supervisors				
Salaries and benefits	2,803	2,820	2,790	30
Services and supplies	3,646	3,531	3,214	317
Expenditure reimbursements	(382)	(384)	(306)	(78)
Total Clerk - Board of Supervisors	<u>6,067</u>	<u>5,967</u>	<u>5,698</u>	<u>269</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Office of the County Executive				
Salaries and benefits	9,138	9,213	9,015	198
Services and supplies	11,531	16,760	12,329	4,431
Interfund transfers	-	125	125	-
Expenditure reimbursements	(213)	(213)	(194)	(19)
Total Office of the County Executive	<u>20,456</u>	<u>25,885</u>	<u>21,275</u>	<u>4,610</u>
Controller-Treasurer				
Salaries and benefits	9,794	9,804	9,782	22
Services and supplies	5,717	5,754	5,244	510
Fixed assets	205	275	275	-
Expenditure reimbursements	(34,847)	(36,837)	(36,949)	112
Interfund transfers	-	154,638	154,638	-
Total Controller-Treasurer	<u>(19,131)</u>	<u>133,634</u>	<u>132,990</u>	<u>644</u>
Tax Collector				
Salaries and benefits	5,397	5,404	5,264	140
Services and supplies	4,761	6,257	6,096	161
Fixed assets	23	23	23	-
Expenditure reimbursements	(346)	(346)	(284)	(62)
Total Tax Collector	<u>9,835</u>	<u>11,338</u>	<u>11,099</u>	<u>239</u>
Office of the Assessor				
Salaries and benefits	27,381	27,355	24,879	2,476
Services and supplies	14,153	14,504	3,901	10,603
Total Office of the Assessor	<u>41,534</u>	<u>41,859</u>	<u>28,780</u>	<u>13,079</u>
Purchasing				
Salaries and benefits	3,507	3,210	2,745	465
Services and supplies	1,375	1,634	898	736
Expenditure reimbursements	(440)	(440)	(441)	1
Total Purchasing	<u>4,442</u>	<u>4,404</u>	<u>3,202</u>	<u>1,202</u>
Office of Budget and Analysis - Special Programs				
Salaries and benefits	-	26	3	23
Services and supplies	15,276	14,401	11,410	2,991
Interfund transfers	176,126	270,627	267,318	3,309
Total Office of Budget and Analysis - Special Programs	<u>191,402</u>	<u>285,054</u>	<u>278,731</u>	<u>6,323</u>
Office of the County Counsel				
Salaries and benefits	19,128	19,461	19,433	28
Services and supplies	2,072	1,955	1,797	158
Expenditure reimbursements	(14,333)	(14,683)	(14,533)	(150)
Total Office of the County Counsel	<u>6,867</u>	<u>6,733</u>	<u>6,697</u>	<u>36</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Personnel				
Salaries and benefits	9,751	10,163	9,973	190
Services and supplies	5,711	5,781	5,492	289
Fixed assets	-	104	99	5
Expenditure reimbursements	(4,022)	(4,022)	(4,284)	262
Total Personnel	<u>11,440</u>	<u>12,026</u>	<u>11,280</u>	<u>746</u>
Risk Management				
Salaries and benefits	1,448	1,517	1,517	-
Services and supplies	750	721	720	1
Expenditure reimbursements	(2,199)	(2,238)	(2,248)	10
Total Risk Management	<u>(1)</u>	<u>-</u>	<u>(11)</u>	<u>11</u>
Registrar of Voters				
Salaries and benefits	6,263	6,690	6,686	4
Services and supplies	7,856	7,554	5,758	1,796
Fixed assets	7	46	42	4
Total Registrar of Voters	<u>14,126</u>	<u>14,290</u>	<u>12,486</u>	<u>1,804</u>
Information Services				
Salaries and benefits	4,403	4,406	4,116	290
Services and supplies	12,153	13,144	12,093	1,051
Fixed assets	1,000	140	138	2
Expenditure reimbursements	(1,540)	(1,540)	(1,396)	(144)
Total Information Services	<u>16,016</u>	<u>16,150</u>	<u>14,951</u>	<u>1,199</u>
Department of Revenue				
Salaries and benefits	6,242	6,250	5,792	458
Services and supplies	1,236	1,374	1,165	209
Fixed assets	170	20	11	9
Total Department of Revenue	<u>7,648</u>	<u>7,644</u>	<u>6,968</u>	<u>676</u>
Communication				
Salaries and benefits	12,835	12,826	12,520	306
Services and supplies	3,117	3,126	2,966	160
Fixed assets	298	274	274	-
Expenditure reimbursements	(4,600)	(4,600)	(4,499)	(101)
Total Communication	<u>11,650</u>	<u>11,626</u>	<u>11,261</u>	<u>365</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Environmental Resources Agency				
Salaries and benefits	9,863	9,618	9,416	202
Services and supplies	5,084	5,398	4,639	759
Expenditure reimbursements	(520)	(520)	(538)	18
Total Environmental Resources Agency	<u>14,427</u>	<u>14,496</u>	<u>13,517</u>	<u>979</u>
Facilities and Fleet Department				
Salaries and benefits	27,019	27,248	27,186	62
Services and supplies	71,262	68,632	65,167	3,465
Fixed assets	-	64	47	17
Expenditure reimbursements	(54,473)	(52,270)	(52,722)	452
Interfund transfers	9,630	10,290	10,290	-
Total Facilities and Fleet Department	<u>53,438</u>	<u>53,964</u>	<u>49,968</u>	<u>3,996</u>
General government - subtotals:				
Salaries and benefits	159,545	160,555	155,338	5,217
Services and supplies	166,027	170,938	143,233	27,705
Fixed assets	1,703	946	909	37
Expenditure reimbursements	(117,915)	(118,093)	(118,394)	301
Interfund transfers	185,756	435,680	432,371	3,309
Total general government	<u>395,116</u>	<u>650,026</u>	<u>613,457</u>	<u>36,569</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	6,965	6,974	6,581	393
Services and supplies	664	744	664	80
Total Clerk Recorder	<u>7,629</u>	<u>7,718</u>	<u>7,245</u>	<u>473</u>
Department of Child Support Services				
Salaries and benefits	30,665	31,270	31,158	112
Services and supplies	7,577	7,707	7,565	142
Total Department of Child Support Services	<u>38,242</u>	<u>38,977</u>	<u>38,723</u>	<u>254</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public protection (continued):				
District Attorney				
Salaries and benefits	73,023	72,572	72,197	375
Services and supplies	15,270	15,159	14,336	823
Fixed assets	-	195	182	13
Expenditure reimbursements	(13,331)	(12,598)	(13,070)	472
Total District Attorney	<u>74,962</u>	<u>75,328</u>	<u>73,645</u>	<u>1,683</u>
Laboratory of Criminalistics				
Salaries and benefits	6,068	6,260	6,259	1
Services and supplies	1,081	1,168	1,162	6
Fixed assets	84	55	55	-
Expenditure reimbursements	(173)	(173)	(182)	9
Total Laboratory of Criminalistics	<u>7,060</u>	<u>7,310</u>	<u>7,294</u>	<u>16</u>
Public Defender				
Salaries and benefits	33,738	35,725	35,641	84
Services and supplies	4,866	4,675	4,459	216
Other charges	1	1	-	1
Fixed assets	110	19	19	-
Expenditure reimbursements	(233)	(322)	(314)	(8)
Total Public Defender	<u>38,482</u>	<u>40,098</u>	<u>39,805</u>	<u>293</u>
Pretrial Services				
Salaries and benefits	4,681	4,686	4,368	318
Services and supplies	1,083	1,166	1,108	58
Expenditure reimbursements	(156)	(156)	(156)	-
Total Pretrial Services	<u>5,608</u>	<u>5,696</u>	<u>5,320</u>	<u>376</u>
Criminal Justice Support				
Services and supplies	52,817	53,846	53,811	35
Total Criminal Justice Support	<u>52,817</u>	<u>53,846</u>	<u>53,811</u>	<u>35</u>
Sheriff Administration				
Salaries and benefits	100,501	101,541	93,719	7,822
Services and supplies	14,885	16,231	13,814	2,417
Fixed assets	1,303	1,124	476	648
Expenditure reimbursements	(3,843)	(4,579)	(1,880)	(2,699)
Total Sheriff Administration	<u>112,846</u>	<u>114,317</u>	<u>106,129</u>	<u>8,188</u>
Sheriff - Department of Correction Services				
Salaries and benefits	95,333	97,059	96,457	602
Total Sheriff - Department of Correction Services	<u>95,333</u>	<u>97,059</u>	<u>96,457</u>	<u>602</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public protection (continued):				
Department of Correction				
Salaries and benefits	31,214	29,918	29,147	771
Services and supplies	38,371	43,992	40,656	3,336
Fixed assets	70	382	344	38
Expenditure reimbursements	(3,665)	(2,937)	(3,018)	81
Total Department of Correction	<u>65,990</u>	<u>71,355</u>	<u>67,129</u>	<u>4,226</u>
Probation Department				
Salaries and benefits	90,050	93,299	93,299	-
Services and supplies	20,494	20,403	20,016	387
Interfund transfers	-	120	120	-
Expenditure reimbursements	(501)	(464)	(473)	9
Total Probation Department	<u>110,043</u>	<u>113,358</u>	<u>112,962</u>	<u>396</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	4,787	4,828	4,775	53
Services and supplies	1,881	1,887	1,704	183
Fixed assets	-	33	17	16
Expenditure reimbursements	(195)	(195)	(194)	(1)
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>6,473</u>	<u>6,553</u>	<u>6,302</u>	<u>251</u>
Medical Examiner - Coroner				
Salaries and benefits	2,476	2,478	2,471	7
Services and supplies	510	529	514	15
Fixed assets	60	60	60	-
Total Medical Examiner - Coroner	<u>3,046</u>	<u>3,067</u>	<u>3,045</u>	<u>22</u>
Public protection - subtotals:				
Salaries and benefits	479,501	486,610	476,072	10,538
Services and supplies	159,499	167,507	159,809	7,698
Other charges	1	1	-	1
Fixed assets	1,627	1,868	1,153	715
Interfund transfers	-	120	120	-
Expenditure reimbursements	(22,097)	(21,424)	(19,287)	(2,137)
Total public protection	<u>618,531</u>	<u>634,682</u>	<u>617,867</u>	<u>16,815</u>
Public ways and facilities:				
Measure B				
Salaries and benefits	348	348	166	182
Services and supplies	45,981	52,939	40,418	12,521
Debt service - principal and interest	72,000	72,998	72,998	-
Interfund transfers	20,407	20,407	5,639	14,768
Total Measure B	<u>138,736</u>	<u>146,692</u>	<u>119,221</u>	<u>27,471</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Health and sanitation:				
Senate Bill 12/855 Funds				
Services and supplies	20,000	-	-	-
Expenditure reimbursements	-	-	(42)	42
Total Senate Bill 12/855 Funds	<u>20,000</u>	<u>-</u>	<u>(42)</u>	<u>42</u>
Health Services Administration				
Salaries and benefits	59,820	58,993	58,905	88
Services and supplies	41,949	41,897	40,094	1,803
Fixed assets	93	223	-	223
Interfund transfers	-	25	-	25
Expenditure reimbursements	(2,975)	(3,048)	(3,168)	120
Total Health Services Administration	<u>98,887</u>	<u>98,090</u>	<u>95,831</u>	<u>2,259</u>
Mental Health Bureau				
Salaries and benefits	37,945	39,726	37,695	2,031
Services and supplies	170,533	192,025	183,010	9,015
Fixed assets	9	-	-	-
Expenditure reimbursements	(2,206)	(2,639)	(2,214)	(425)
Total Mental Health Bureau	<u>206,281</u>	<u>229,112</u>	<u>218,491</u>	<u>10,621</u>
Custody Health Services				
Salaries and benefits	32,398	36,003	35,575	428
Services and supplies	6,756	8,390	6,700	1,690
Expenditure reimbursements	(37,343)	(42,446)	(39,514)	(2,932)
Total Custody Health Services	<u>1,811</u>	<u>1,947</u>	<u>2,761</u>	<u>(814)</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	16,727	17,278	17,198	80
Services and supplies	30,276	29,708	29,239	469
Expenditure reimbursements	(3,165)	(3,276)	(3,086)	(190)
Total Bureau of Alcohol & Drug Programs	<u>43,838</u>	<u>43,710</u>	<u>43,351</u>	<u>359</u>
Community Outreach Program				
Salaries and benefits	7,639	7,717	7,478	239
Services and supplies	1,114	1,102	823	279
Total Community Outreach Program	<u>8,753</u>	<u>8,819</u>	<u>8,301</u>	<u>518</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Health and sanitation (continued):				
Healthy Children				
Services and supplies	3,000	4,500	4,132	368
Total Healthy Children	<u>3,000</u>	<u>4,500</u>	<u>4,132</u>	<u>368</u>
Health and sanitation - subtotals:				
Salaries and benefits	154,529	159,717	156,851	2,866
Services and supplies	273,628	277,622	263,998	13,624
Fixed assets	102	223	-	223
Interfund transfers	-	25	-	25
Expenditure reimbursements	<u>(45,689)</u>	<u>(51,409)</u>	<u>(48,024)</u>	<u>(3,385)</u>
Total health and sanitation	<u>382,570</u>	<u>386,178</u>	<u>372,825</u>	<u>13,353</u>
Public assistance:				
In-House Support Services				
Services and supplies	49,156	49,156	48,253	903
Total In-House Support Services	<u>49,156</u>	<u>49,156</u>	<u>48,253</u>	<u>903</u>
Office of Affordable Housing				
Salaries and benefits	585	585	585	-
Services and supplies	1,355	1,440	1,373	67
Expenditure reimbursements	<u>(709)</u>	<u>(709)</u>	<u>(688)</u>	<u>(21)</u>
Total Office of Affordable Housing	<u>1,231</u>	<u>1,316</u>	<u>1,270</u>	<u>46</u>
Social Services Administration				
Salaries and benefits	238,655	244,347	238,207	6,140
Services and supplies	139,634	139,036	121,138	17,898
Fixed assets	-	575	424	151
Total Social Services Administration	<u>378,289</u>	<u>383,958</u>	<u>359,769</u>	<u>24,189</u>
Nutrition Services to the Aged				
Salaries and benefits	779	801	799	2
Services and supplies	<u>5,398</u>	<u>5,382</u>	<u>5,283</u>	<u>99</u>
Total Nutrition Services to the Aged	<u>6,177</u>	<u>6,183</u>	<u>6,082</u>	<u>101</u>
Categorical Aids Payments				
Services and supplies	<u>217,131</u>	<u>217,131</u>	<u>182,702</u>	<u>34,429</u>
Total Categorical Aids Payments	<u>217,131</u>	<u>217,131</u>	<u>182,702</u>	<u>34,429</u>
Public assistance - subtotals:				
Salaries and benefits	240,019	245,733	239,591	6,142
Services and supplies	412,674	412,145	358,749	53,396
Fixed assets	-	575	424	151
Expenditure reimbursements	<u>(709)</u>	<u>(709)</u>	<u>(688)</u>	<u>(21)</u>
Total public assistance	<u>651,984</u>	<u>657,744</u>	<u>598,076</u>	<u>59,668</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt service:				
County debt service				
Principal retirement	12,519	12,519	12,390	129
Interest and fiscal charges	1,131	1,131	1,044	87
Interfund transfers	835	835	758	77
Total debt service	<u>14,485</u>	<u>14,485</u>	<u>14,192</u>	<u>293</u>
Provisions for Contingencies:				
Appropriation Contingencies				
Interfund transfers	-	2,122	2,122	-
Total provisions for contingencies	<u>-</u>	<u>2,122</u>	<u>2,122</u>	<u>-</u>
Reserves:				
Office of County Executive				
General government	524	399	-	399
Total Office of County Executive	<u>524</u>	<u>399</u>	<u>-</u>	<u>399</u>
OMB Special Programs				
General government	1,367	1,341	-	1,341
Total OMB Special Programs	<u>1,367</u>	<u>1,341</u>	<u>-</u>	<u>1,341</u>
Probation Department				
Public protection	1,173	500	-	500
Total Probation Department	<u>1,173</u>	<u>500</u>	<u>-</u>	<u>500</u>
Department of Correction				
Public protection	148	-	-	-
Total Department of Correction	<u>148</u>	<u>-</u>	<u>-</u>	<u>-</u>
Measure B				
Public ways and facilities	3	3	-	3
Total Measure B	<u>3</u>	<u>3</u>	<u>-</u>	<u>3</u>
Social Services Administration				
Public assistance	2,593	2,780	-	2,780
Total Social Services Administration	<u>2,593</u>	<u>2,780</u>	<u>-</u>	<u>2,780</u>
Categorical Aids Payments				
Public assistance	2,740	2,740	-	2,740
Total Categorical Aids Payments	<u>2,740</u>	<u>2,740</u>	<u>-</u>	<u>2,740</u>
Nutrition Services to the Aged				
Public assistance	-	825	-	825
Total Nutrition Services to the Aged	<u>-</u>	<u>825</u>	<u>-</u>	<u>825</u>
Appropriation Contingencies				
Total Appropriation Contingencies	<u>87,730</u>	<u>123,364</u>	<u>-</u>	<u>123,364</u>
Total reserves	<u>96,278</u>	<u>131,952</u>	<u>-</u>	<u>131,952</u>
Total charges to appropriations	<u>\$ 2,297,700</u>	<u>\$ 2,623,881</u>	<u>\$ 2,337,760</u>	<u>\$ 286,121</u>

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2007
(In thousands)

Explanation of Differences between Budgetary Inflows and Outflows and
GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule	\$ 2,197,566
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(4,000)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(264,809)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 1,928,757</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,337,760
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or goods received for financial reporting purposes	(12,908)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(441,010)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 1,883,842</u></u>

The notes to the required supplementary information are an integral part of this statement.

COUNTY OF SANTA CLARA

Notes to Required Supplementary Information
June 30, 2007
(Dollars in thousands)

Budgets and Budgetary Accounting

The County is a charter county and, under the general laws of the State, adopts final annual operating budgets before September 1 for all governmental funds, except capital projects funds. From the effective date of the budgets, which are adopted by the Board of Supervisors after public hearings, the proposed expenditures become appropriations to the various County departments. Only the Board has the authority to approve new appropriations. The County executive has a limited authority to approve appropriation transfers of \$100 between the objects within a budget unit. The Board of Supervisors must approve transfers among budget units and may amend the budget during the fiscal year. Unencumbered and unexpended appropriations lapse at fiscal year-end. During the year, the Board of Supervisors approved various supplemental appropriations.

The County also adopts budgets annually for capital projects funds. Such budgets are based on a project time frame, rather than a fiscal year, and unused appropriations are reappropriated from year to year until project completion.

Budgeted revenues and expenditures in the budgetary comparison schedule represent the original budget and the final budget modified by authorized adjustments during the year. Final budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year that were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. Expenditures may not legally exceed budgeted appropriations at the budget unit level within each department. Interdepartmental expenditure reimbursements do not have the budgetary status of legal appropriations. Therefore, variances between estimated and actual reimbursements are not disclosed in the notes to the basic financial statements but are displayed in the supplemental section of the Comprehensive Annual Financial Report.

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 Fund, special revenue funds, and capital projects funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Budgetary Results of Operations Reconciled to Results of Operations in Accordance with GAAP

The County's budget is based upon accounting for certain transactions on a budget basis rather than accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations on a budget basis for the general, special revenue, debt service, and capital projects funds differ from operations on a GAAP basis due to the proceeds from sales of capital assets, interfund transfers, other financing sources and the inclusion of year-end encumbrances with expenditures on a budget basis. Accordingly, the results of operations presented in the accompanying budgetary comparison schedule reflect adjustments for proceeds from sales of capital assets, interfund transfers, other financing sources and encumbrances in order to provide a meaningful comparison with the adopted County budget.



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The Honorable Members of the
 Board of Supervisors of the
 County of Santa Clara
 San Jose, California

**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***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California, (the County), as of and for the fiscal year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 14, 2007. We did not audit the financial statements of the FIRST 5 Santa Clara County; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and Los Altos Hills County Fire District (collectively, "Fire Districts"), which represent the following percentages of assets, net assets and revenues as of and for the fiscal year ended June 30, 2007:

<u>Opinion Unit</u>	<u>Assets</u>	<u>Net Assets</u>	<u>Revenues</u>
Governmental activities	2.9%	4.3%	3.6%
Business-type activities	1.2%	4.9%	0.3%
Aggregate discretely presented component units and remaining fund information	4.4%	4.0%	1.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency as listed as item 2007-A in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessary identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of 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 determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of the County in a separate letter dated December 14, 2007.

The County's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

December 14, 2007



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The Honorable Members of the
Board of Supervisors of the
County of Santa Clara
San Jose, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the County of Santa Clara, California (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$220,745,022 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2007. Our audit, described below, did not include the operations of the Housing Authority because we audited and reported on the Housing Authority in accordance with OMB Circular A-133 as a separate engagement.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in item 2007-1, in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding reporting that are applicable to its Community Development Block Grants/Entitlement Grants (CFDA 14.218) and HOME Investment Partnerships Program (CFDA 14.239). As described in item 2007-2, the County did not comply with the requirements regarding eligibility that are applicable to its Foster Care-Title IV-E (CFDA 93.658) program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and one deficiency that we consider to be a material weakness.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying federal awards schedule of findings and questioned costs as items 2007-1, 2007-2, 2007-3 and 2007-4 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-1 and 2007-2 to be material weaknesses.

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP
Certified Public Accountants
Walnut Creek, California

March 2, 2008

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COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
U.S. Department of Agriculture		
<u>Passed Through State Department of Social Services</u>		
Food Stamps	10.551	\$ 72,499,247
State Administrative Matching Grants for Food Stamp Program	10.561	15,600,698
Subtotal Food Stamps Cluster		88,099,945
<u>Passed Through State Department of Health Services</u>		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2,295,783
<u>Passed Through State Department of Agriculture</u>		
Inspection Grading and Standardization	10.162	999
<u>Passed Through State Department of Education</u>		
School Breakfast Program	10.553	231,276
National School Lunch Program	10.555	344,615
Subtotal Child Nutrition Cluster		575,891
Subtotal Passed Through State Department of Education		575,891
Total U.S. Department of Agriculture		90,972,618
U.S. Department of Commerce		
<u>Direct Program</u>		
Coastal Zone Management Administration Awards	11.419	163,610
Total U.S. Department of Commerce		163,610
U.S. Department of Housing and Urban Development		
<u>Direct Programs</u>		
Community Development Block Grants/Entitlement Grants	14.218	2,933,622
HOME Investment Partnerships Program	14.239	9,489,984
Total U.S. Department of Housing and Urban Development		12,423,606
U.S. Department of Interior		
<u>Passed Through State Department of Parks and Recreation</u>		
Land, Water, and Conservation Fund	15.916	204,000
Total U.S. Department of Interior		204,000
U.S. Department of Justice		
<u>Direct Programs</u>		
Juvenile Accountability Incentive Block Grants	16.523	155,548
Supervised Visitation, Safe Havens for Children	16.527	435,793
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	1,225
Grants to Encourage Arrest Policies and Enforcement		
of Protection Orders	16.590	608,783
Community Capacity Development Office	16.595	135,952
Edward Byrne Memorial Justice Assistance Grant Program	16.738	353,552
Subtotal Direct Programs		1,690,853

See accompanying notes to Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
U.S. Department of Justice (Continued)		
<u>Passed Through State Department of Alcohol and Drug</u>		
Drug Court Discretionary Grant Program	16.585	58,061
<u>Passed Through State Office of Emergency Services</u>		
Marijuana Suppression Program	16.378	118,905
Crime Victim Assistance	16.575	298,085
Edward Byrne Memorial Justice Assistance Grant Program	16.738	315,397
Subtotal Passed Through State Office of Emergency Services		732,387
Total U.S. Department of Justice		2,481,301
U.S. Department of Transportation		
<u>Direct Program</u>		
Airport Improvement Program	20.106	235,397
<u>Passed Through State Office of Emergency Services</u>		
Hazardous Materials Emergency Preparedness Grant	20.703	13,943
<u>Passed Through State Department of Transportation</u>		
Highway Planning and Construction	20.205	3,854,666
<u>Passed Through State Department of Parks and Recreation</u>		
Recreational Trails Program	20.219	200,000
<u>Passed Through State Office of Traffic Safety</u>		
State and Community Highway Safety	20.600	768,254
Total U.S. Department of Transportation		5,072,260
Environmental Protection Agency		
<u>Passed Through California Environmental Protection Agency - Air Resources Board</u>		
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	92,388
Total Environmental Protection Agency		92,388
U.S. Department of Education		
<u>Passed Through State Department of Alcohol and Drug</u>		
Safe and Drug Free Schools and Communities - State Grants	84.186	179,497
Total U.S. Department of Education		179,497
U.S. Department of Health and Human Services		
<u>Direct Program</u>		
Consolidated Health Centers (Community Health Center, Migrate Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	681,055
<u>Passed Through Council on Aging Silicon Valley</u>		
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	1,862,362
Nutrition Service Incentive Program	93.053	658,704
Subtotal Aging Cluster		2,521,066

See accompanying notes to Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
U.S. Department of Health and Human Services (Continued)		
<u>Passed Through State Department of Education</u>		
Child Care and Development Block Grants	93.575	1,533,513
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	272,552
Subtotal Passed Through State Department of Education		1,806,065
<u>Passed Through State Department of Health Services</u>		
Public Health and Social Services Emergency Fund	93.003	2,225,915
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	461,297
Projects for Assistance in Transition from Homelessness (PATH)	93.150	232,293
Immunization Grants	93.268	765,926
Centers for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	1,598,100
Refugee and Entrant Assistance _Discretionary Grants	93.576	359,738
National Bioterrorism Hospital Preparedness Program	93.889	1,157,488
HIV Emergency Relief Project Grants	93.914	2,257,643
HIV Care Formula Grants	93.917	368,063
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	748,844
HIV Prevention Activities _Health Department Based	93.940	1,435,110
Public Health Traineeships	93.964	525,325
Maternal and Child Health Services Block Grant to the States	93.994	865,470
Subtotal Passed Through State Department of Health Services		13,001,212
<u>Passed Through State Department of Child Support Services</u>		
Child Support Enforcement	93.563	24,921,342
<u>Passed Through State Department of Aging</u>		
Medical Assistance Program	93.778	4,398,151
<u>Passed Through State Department of Social Services</u>		
Substance Abuse and Mental Health Services _Projects of Regional and National Significance	93.243	547,265
Promoting Safe and Stable Families	93.556	1,249,381
Temporary Assistance for Needy Families	93.558	109,742,540
Refugee and Entrant Assistance _State Administered Programs	93.566	994,424
Refugee and Entrant Assistance _Targeted Assistance Grants	93.584	493,729
Child Welfare Services _State Grants	93.645	1,355,189
Foster Care _Title IV-E	93.658	45,474,860
Adoption Assistance	93.659	10,431,762
Social Services Block Grant	93.667	1,664,745
Chafee Foster Care Independence Program	93.674	606,175
Medical Assistance Program	93.778	50,988,749
Subtotal Passed Through State Department of Social Services		223,548,819

See accompanying notes to Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
U.S. Department of Health and Human Services (Continued)		
<u>Passed Through State Department of Mental Health</u>		
Block Grants for Community Mental Health Services	93.958	704,859
<u>Passed Through State Department of Alcohol and Drug</u>		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	11,479,167
Total U.S. Department of Health and Human Services		<u>283,061,736</u>
U.S. Department of Homeland Security		
<u>Passed Through the City of San Jose</u>		
Urban Areas Security Initiative	97.008	1,555,697
<u>Passed Through the State Office of Emergency Services</u>		
State Domestic Preparedness Equipment Support Program	97.004	841,619
Homeland Security Grant Program	97.067	2,719,606
Subtotal Homeland Security Cluster		<u>3,561,225</u>
Pre-Disaster Mitigation Competitive Grants	97.017	1,278,155
Emergency Management Performance Grants	97.042	18,248
State Homeland Security (LETTP)	97.074	780,289
Buffer Zone Protection Program (BZPP)	97.078	676,856
Subtotal Passed Through State Office of Emergency Services		<u>6,314,773</u>
Total U.S. Department of Homeland Security		<u>7,870,470</u>
Total Expenditures of Federal Awards		<u>\$ 402,521,486</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2007

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (the County), for the fiscal year ended June 30, 2007, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County’s reporting entity is defined in Note 1 to the County’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County’s basic financial statements, with the exception of the HOME Investment Partnerships Program (see note 7).

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the County’s basic financial statements as expenditures in the General Fund and nonmajor special revenue funds and as expenses in the Airport enterprise fund.

Note 4 – Housing Authority (Discrete Component Unit) Federal Expenditures

The Housing Authority federal expenditures are excluded from the SEFA because the Housing Authority’s federal expenditures are separately audited. Expenditures for the programs of the Housing Authority listed below are taken from the separately issued single audit report. The programs of the Housing Authority are as follows:

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
<i>Pass-through the City of San Jose:</i>		
Community Development Block Grant Entitlement Grants	14.218	\$ 29,567
<i>Direct:</i>		
Supportive Housing for Persons with Disabilities (section 811) - Winter Shelter	14.181	240,700
Shelter Plus Care	14.238	2,467,654
Public and Indian Housing	14.850	987,204
Lower Income Housing Assistance Program:		
Section 8 New Construction and Substantial Rehabilitation - New Construction	14.182	935,386
Section 8 New Construction and Substantial Rehabilitation - Huff Gardens	14.182	312,970
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	790,972
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	1,197,546
Section 8 Housing Choice Vouchers	14.871	213,041,927
Public Housing Capital Fund	14.872	741,096
Total Federal Expenditures		<u>\$ 220,745,022</u>

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Note 5 – Food Stamps

Food stamps expenditures of \$72,499,247 represent the face value of food stamps distributed to program participants. They do not represent cash expenditures in the County’s basic financial statements for the fiscal year ended June 30, 2007.

Note 6 – Amount Provided to Subrecipients

Of the federal expenditures presented in the SEFA, the County provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 52,597
Community Development Block Grants/Entitlement Grants	14.218	1,649,287
Juvenile Accountability Incentive Block Grants	16.523	78,467
Supervised Visitation, Safe Havens for Children	16.527	314,863
Dependency Drug Treatment Court	16.585	47,005
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	590,065
Anti-Drug Abuse Enforcement Program	16.738	370,610
Hazardous Materials Emergency Preparedness Grant	20.703	13,943
Network Readiness	66.608	92,388
Safe and Drug Free Schools and Communities	84.186	101,995
Special Program for the Aging - Title III, Part C Nutrition Services	93.045	1,862,362
Nutrition Service Incentive Program	93.053	658,704
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	25,000
Projects for Assistance in Transition from Homelessness (PATH)	93.150	230,287
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	199,430
Immunization Grants	93.268	259,528
Center for Disease Control & Prevention - Investigations and Technical Assistance	93.283	1,044,222
Temporary Assistance for Needy Families (TANF)	93.558	3,916,718
Refugee and Entrant Assistance-State Administered Programs	93.566	276,471
Refugee and Entrant Assistance-Discretionary Grants	93.576	31,026
Refugee and Entrant Assistance-Targeted Assistance Grants	93.584	372,209
Chafee Foster Care Independent Living	93.674	517,432
National Bioterrorism Hospital Preparedness Program	93.889	356,794
HIV Emergency Relief Project Grants	93.914	1,032,458
HIV Prevention Activities - Health Department Based	93.940	370,242
Block Grants for Community Mental Health Services	93.958	103,178
Substance Abuse Prevention and Treatment Block Grant	93.959	4,091,875
State Domestic Preparedness Equipment Support Program	97.004	67,971
Total		<u>\$ 18,727,127</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2007

Note 7 – Loans Outstanding

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the HOME Investment Partnerships Program (HOME). During the fiscal year 2007, the County incurred \$468,367 in expenditures related to new loans under this program. As of June 30, 2007, the total amount of HOME loans outstanding subject to continuing compliance requirements was \$8,758,302, which is included in the SEFA.

Note 8 – California Department of Aging (CDA) Grant

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	CFDA Number	Grant/ Contract Number	Expenditures	
			State	Federal
U.S. Department of Health & Human Services				
<i>Pass through the Council on Aging Silicon Valley</i>				
Special Programs for the Aging_ Title III, Part C				
Nutrition Services	93.045	AP-0607-10	\$ 207,083	\$ 1,862,362
Nutrition Service Incentive Program	93.053	AP-0607-10	-	658,704
Medical Assistance Program:				
California Children's Services (CCS)				
Child Health and Disability Prevention (CHDP)				
Health Care Program for Children in Foster Care (HCPCFC)	93.778		2,764,067	4,398,151
Total Expenditures of State and Federal Awards			<u>\$ 2,971,150</u>	<u>\$ 6,919,217</u>

Note 9 – Program Totals

The schedule of expenditures of federal awards does not summarize programs that receive funding from various funding sources or grants. The following table summarizes these programs by CDFFA number:

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
CFDA Number 16.738 - Anti-Drug Abuse Enforcement Program	
U.S. Department of Justice	\$ 353,552
State of California, Office of Emergency Services	315,397
	<u>\$ 668,949</u>
CFDA Number 93.778 - Medical Assistance Program (Medicaid: Title XIX)	
State of California, Department of Social Services	\$ 50,988,749
State of California, Department of Aging	4,398,151
	<u>\$ 55,386,900</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Note 10 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditures

State of California Office of Emergency Services grant expenditures:

The following represents grant expenditures for Department of Justice grants passed through the State of California Office of Emergency Services for the fiscal year ended June 30, 2007.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
1 Marijuana Suppression Program	MS 06050430					
Personal Services	7/1/06 to 6/30/07	\$ 114,900	114,900	\$ -	\$ 114,900	\$ -
Operating Expenses		4,005	4,005	-	4,005	-
Total		<u>\$ 118,905</u>	<u>\$ 118,905</u>	<u>\$ -</u>	<u>\$ 118,905</u>	<u>\$ -</u>
2 Victim Witness Assistance - OES	VW 06250430					
Personal Services	7/1/06 to 6/30/07	\$ 298,085	298,085	\$ -	\$ 298,085	\$ -
Total		<u>\$ 298,085</u>	<u>\$ 298,085</u>	<u>\$ -</u>	<u>\$ 298,085</u>	<u>\$ -</u>
3 Anti-Drug Abuse Enforcement Program	DC06170430					
Personal Services	7/1/06 to 6/30/07	\$ 182,375	\$ 182,375	\$ -	\$ 182,375	\$ -
Operating Expenses		112,382	112,382	-	112,382	-
Equipment		20,640	20,640	-	20,640	-
Total		<u>\$ 315,397</u>	<u>\$ 315,397</u>	<u>\$ -</u>	<u>\$ 315,397</u>	<u>\$ -</u>

(Note: The non-match federal expenditure of \$118,905, \$298,085 and \$315,397 for grants MS 06050430, VW 06250430 and DC06170430, respectively are reported as federal expenditures in the SEFA under the following CFDA numbers: 16.378, 16.575 and 16.738.)

The following represents the State of California Office of Emergency Services summary grant expenditures for the fiscal year ended June 30, 2007. This information is included in the County's single audit report at the request of the State of California's Office of Emergency Services.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
4 Victim Witness Assistance - OES	VW 05240430					
Personal Services	7/1/05 to 6/30/06	\$ 520,460	\$ 76	\$ -	\$ 76	\$ 520,384
Operating Expenses		122,145	7,173	-	7,173	114,972
Total		<u>\$ 642,605</u>	<u>\$ 7,249</u>	<u>\$ -</u>	<u>\$ 7,249</u>	<u>\$ 635,356</u>
5 Victim Witness Assistance - OES	VW 06250430					
Personal Services	7/1/06 to 6/30/07	\$ 223,410	212,060	\$ -	\$ 212,060	\$ 11,350
Operating Expenses		124,889	106,628	-	106,628	18,261
Total		<u>\$ 348,299</u>	<u>\$ 318,688</u>	<u>\$ -</u>	<u>\$ 318,688</u>	<u>\$ 29,611</u>
6 Child Abuser Vertical Prosecution Program	VB 06040430					
Personal Services	7/1/06 to 6/30/07	\$ 436,083	\$ 436,083	\$ -	\$ 436,083	\$ -
Total		<u>\$ 436,083</u>	<u>\$ 436,083</u>	<u>\$ -</u>	<u>\$ 436,083</u>	<u>\$ -</u>
7 High Technology Theft Apprehension & Prosecution	HT 06070430					
Personal Services	7/1/06 to 6/30/07	\$ 635,672	\$ 455,672	\$ 180,000	\$ 635,672	\$ -
Operating Expenses		1,793,213	1,474,526	306,915	1,781,441	11,772
Equipment		5,691	-	-	-	5,691
Total		<u>\$ 2,434,576</u>	<u>\$ 1,930,198</u>	<u>\$ 486,915</u>	<u>\$ 2,417,113</u>	<u>\$ 17,463</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Note 10 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditures (Continued)

State of California Office of Emergency Services grant expenditures (Continued):

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
8 High Technology Theft Apprehension & Prosecution	HD 05050430					
Personal Services	7/1/05 to 6/30/06	\$ 217,282	\$ 187,281	\$ 30,001	\$ 217,282	\$ -
Operating Expenses		485,097	374,622	110,475	485,097	-
Total		<u>\$ 702,379</u>	<u>\$ 561,903</u>	<u>\$ 140,476</u>	<u>\$ 702,379</u>	<u>\$ -</u>

California Victims Compensation & Government Claims Board grant expenditures:

The following represents the California Victims Compensation & Government Claims Board grant expenditures for the fiscal year ended June 30, 2007. This information is included in the County's single audit report at the request of the California Victims Compensation & Government Claims Board.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
9 Victim Witness Assistance - BOC	VCGC5059					
Personal Services	7/1/06 to 6/30/07	\$ 959,608	\$ 807,257	\$ -	\$ 807,257	\$ 152,351
Operating Expenses		171,505	156,270	-	156,270	15,235
Total		<u>\$ 1,131,113</u>	<u>\$ 963,527</u>	<u>\$ -</u>	<u>\$ 963,527</u>	<u>\$ 167,586</u>
10 Victim Witness Restitution for Crime Victims	VCGC5077					
Personal Services	7/1/06 to 6/30/07	\$ 165,056	\$ 165,056	\$ -	\$ 165,056	\$ -
Operating Expenses		8,939	8,939	-	8,939	-
Total		<u>\$ 173,995</u>	<u>\$ 173,995</u>	<u>\$ -</u>	<u>\$ 173,995</u>	<u>\$ -</u>
11 Santa Clara County Parole Advocacy program	PA06010430					
Personal Services	11/1/06 to 6/30/07	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses		65,789	26,352	-	26,352	39,437
Equipment		27,250	26,046	-	26,046	1,204
Total		<u>\$ 93,039</u>	<u>\$ 52,398</u>	<u>\$ -</u>	<u>\$ 52,398</u>	<u>\$ 40,641</u>

California Department of Justice grant expenditures:

The following represents the California Department of Justice grant expenditures for the fiscal year ended June 30, 2007. This information is included in the County's single audit report at the request of the California Department of Justice.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
12 Spousal Abuser Prosecution Program	06SA13B030					
Personal Services	7/1/06 to 6/30/07	\$ 56,360	\$ 37,353	\$ 19,007	\$ 56,360	\$ -
Other		57,680	57,680	-	57,680	-
Total		<u>\$ 114,040</u>	<u>\$ 95,033</u>	<u>\$ 19,007</u>	<u>\$ 114,040</u>	<u>\$ -</u>

COUNTY OF SANTA CLARA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2007

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Qualified for CFDA #14.218, 14.239 and 93.658
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs:	
CFDA #10.551	Food Stamps
CFDA #10.561	State Administrative Matching Grants for Food Stamp Program
CFDA #14.218	Community Development Block Grants/Entitlement Grants
CFDA #14.239	HOME Investment Partnerships Program
CFDA #93.558	Temporary Assistance for Needy Families
CFDA #93.658	Foster Care – Title IV-E
CFDA #97.008	Urban Areas Security Initiative
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Section II Financial Statement Findings

Item #2007 A - Significant Deficiency #1
Internal Controls over Medi-Cal Reserve Analysis

The core of the SCVHHS's Medi-Cal reserve analysis is based on manual data entries into internally developed Excel spreadsheets. During our audit, we noted that this analysis included a calculation error caused by the unavailability of archived data resulting in an overstatement of the contractual allowances in the amount of \$9.6 million. The County's staff subsequently recorded an adjustment to correct the overstatement in the June 30, 2007 financial statements.

We recommend the SCVHHS's Finance Department improve its archiving processes and related controls to ensure that work papers are readily available for use by them as well as the external auditors.

Management Response from the SCVHHS's Finance Department

The use of Excel spread sheets is the industry standard for developing models and finalizing contractual estimates in cases requiring special calculations or subjective evaluation. SCVHHS Finance and outside consultants accurately calculated \$376.8 million in contractual allowances and reserves for fiscal year 2007. The error referenced above was precipitated by the temporary unavailability of network files and the transitioning of staff to new roles.

SCVHHS Finance will work with SCVHHS Information Services to further enhance and safeguard its archiving processes. Staff training has and will continue to include an emphasis on review and oversight of calculations. This is the first time this issue has arisen and SCVHHS Finance does not expect it to recur.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Section III Federal Award Findings and Questioned Costs

Finding No. 2007-1 **CFDA #14.218 – Community Development Block Grants/
Entitlement Grants**
**CFDA #14.239 – HOME Investment Partnerships Program
Reporting**

Criteria:

In accordance with the compliance requirement of the U.S. Office of Management and Budget (OMB) Circular A-133, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the primary grant recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. The purpose of Form HUD 60002 is to report annual accomplishments regarding employment and other economic opportunities provided to low- and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968. This report is required to be submitted annually by January 10 of the program year by direct grant recipients only.

The OMB updates and publishes annually the OMB Circular A-133 *Compliance Supplement*, which provides guidance to grantees and auditors on requirements of the Single Audit. While the current regulations became effective in 1994, the OMB and the Department of Housing and Urban Development (HUD) included the requirement in its March 2007 *Compliance Supplement* to require auditors to address specifically the completion, submission and audit of Form HUD 60002 as a significant compliance requirement under Part 4 – Department of Housing and Urban Development. This requirement is applicable to many of the HUD programs, including the Community Development Block Grants and the HOME Investment Partnerships Program.

Condition:

During our audit, we noted that the County did not complete the Form *HUD 60002, Section 3 Annual Summary Report* as required by 24 CFR Sections 135.3(a), 135.90, and 570.607 for the Community Development Block Grant and the HOME Investment Partnerships Program. The County has not attended recent trainings provided by U.S. Department of Housing and Urban Development (HUD) and as such did not realize that they were required to complete a separate annual report because the County was a prime recipient of funds over \$200,000 that involved housing rehabilitation, housing construction or other public construction.

Effect:

Based on our discussions with HUD, recipients who consistently fail to submit their Section 3 Annual Summary Reports will be subject to the sanctions found 24 CFR Part 135.76(g), which include debarment, suspension and/or limited participation in HUD programs. HUD also emphasized that beginning in 2009, recipients who do not have current Section 3 Annual Summary Reports on file with HUD will not be eligible to compete for competitive funding through the HUD SuperNOFA process.

Questioned Costs:

Not Applicable

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-1 (Continued)

Recommendation:

The County's Office of Affordable Housing (OAH) should contact HUD and obtain technical assistance in meeting the reporting requirements. HUD may allow some flexibility with the reporting due deadlines on a case-by-case basis provided that requests for extension are submitted and explained. In addition, the County's OAH should annual review OMB Circular A-133 and grant agreements for recent requirement changes. We recommend that the County's OAH evaluate, design and implement effective control procedures over the reporting process to ensure that all required reports are completed in a timely manner and filed with the appropriate granting agency.

Management Response from the Office of Affordable Housing:

This finding relates to completion of the Form *HUD 60002, Section 3 Annual Summary Report*. Per the recommendation from Macias Gini & O'Connell, OAH staff consulted with HUD to obtain technical assistance. OAH was advised that 2007 submittal of this report is still acceptable. OAH staff will prepare and submit the HUD 60002 form no later than May 1, 2008.

OAH staff regularly review opportunities for HUD training. No specific training for the new HUD 60002 report was seen during 2007. As HUD trainings tend to fill fast, staff will work with HUD on identification of dates and locations for the appropriate training.

OAH staff will incorporate completion of the HUD 60002, *Section 3 Annual Summary Report* by January 10th of each year, as part of our existing OAH internal procedures.

The CDBG/HOME Program does not directly construct housing. CDBG/HOME contracts are executed with non-profit housing development agencies. The non-profit agencies enter into agreements with construction companies for housing development.

Furthermore, the most recent evaluation from HUD, dated June 20, 2007, was the Annual Community Assessment for Fiscal Year 2005. The report indicated that OAH was in compliance with statuettes and regulations governing CDBG and HOME.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-2

**CFDA #93.658 – Foster Care Title IV-E
Eligibility**

Criteria:

In accordance with OMB A-133, a grantee is responsible for documenting eligibility determinations. Under the Foster Care Title IV-E eligibility requirements, all forms used for eligibility determination should be properly re-evaluated and approved.

Under Foster Care guidelines, recipient eligibility should be documented using the following forms:

- *Statement of Fact Supporting Eligibility For AFDC-Foster Care (Form FC 2)* - This form is used by eligibility workers to document relevant information used in determining eligibility. The information on this form must be reviewed and updated using a new form every twelve months at the time of judicial review to determine if individuals remain eligible to receive benefits (45 CFR section 1356.21(b)(2)).
- *Approval of Family Caregiver Home (Form SOC 815)* - This form is used to document that the foster family home provider has satisfactorily met a criminal records check with respect to perspective to prospective foster and adoptive parents (45 CFR sections 1356.3(a) and (b)).

Condition:

During our testing of 45 participant files for compliance with eligibility requirements, we noted the following:

- 4 participant files did not have a Form FC 2 completed during fiscal year 2007, thus not meeting the required twelve-month eligibility re-determination requirement.
- 4 participant files had Form FC 2 completed after the required due date during fiscal year 2007, thus not meeting the required twelve-month eligibility re-determination requirement.
- 1 participant file did not have a complete Form SOC 815 on file.

Effect:

Untimely re-determinations, missing approvals, and lack of documentation indicating the criminal background check was performed may result in inadequate eligibility determinations, thus benefits could be disbursed to ineligible participants.

Questioned Costs:

\$34,463

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-2 (Continued)

Recommendation:

We recommend that the Social Services Agency strengthen its monitoring controls over the eligibility determination and re-determination process to ensure the timely completion and maintenance of required documentation. Program staff should be held responsible for filing documentation and supervisors should review and monitor the process of adequately documenting determinations and re-determinations.

Management Response from the Social Services Agency:

We are in agreement with the auditor's findings. The Agency's corrective action plan to address other citations will include:

- 1) A memorandum to staff as a reminder of the 12 month requirement to complete the redetermination.
- 2) Posting of the redetermination training material on the internet.
- 3) Creation of a new redetermination report which will be distributed to eligibility and social work staff that will serve as a reminder two months prior to the redetermination due date. A follow-up internal notice will be generated and distributed to the Social Worker one month prior to the redetermination outlining the documentation necessary for the eligibility worker and due date. Finally, an overdue report will be generated and distributed to the Social Work Supervisors for follow-up and monitoring. Eligibility staff relies on the Social Worker to provide the necessary documentation and we are confident these steps will ensure timely compliance.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

**Finding No. 2007-3 CFDA #93.658 – Foster Care_Title IV-E
Reporting**

Criteria:

The County is a recipient of Foster Care_Title IV-E funds from the State of California Department of Social Services (State). The State requires that the County submit the following reports by the 20th calendar date following the end of the claiming month:

- Caseload Movement and Expenditure Report (CA-237) and related supporting documentation and
- Expenditure Certification for the County Welfare Department Assistance Claim Expenditures (CA-800).

Condition:

During our review the County's reports, we noted that the 3 monthly CA-237 reports selected for testing ranged from 2 to 9 days late and 1 out of 3 monthly CA-800 reports selected for testing was filed 20 days after the due date. Timely submissions of required reports to grantors are essential so that accurate financial and programmatic information is collected for analysis and determination of future funding levels.

Cause:

During the County's CalWIN implementation, operational problems, delays, and system issues occurred frequently and regularly. As a result, the County's staff has spent additional resources to correct these issues and as a result, report filings were not as timely as in prior years.

Questioned Costs:

Not applicable.

Recommendation:

We recommend the Social Services Agency (SSA) evaluate controls over reporting to ensure timely submissions of required reports. Adequate controls should include mechanisms to identify and track report due dates ensuring that required information is readily available. Also, procedures should be implemented to obtain, if possible, approved deadline extensions for instances when reports are expected to be submitted late due to system problems or staffing constraints. The approved extensions should be documented within the reporting files of SSA for auditor review.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-3 (Continued)

Management Response from the Social Services Agency:

CA 237 FC Reports

In 2006 and 2007, the Agency continued to experience CalWIN system problems associated with validating system extracts and reports designed to provide information needed to complete the CA 237 Report. In addition, Financial Management Services (FMS) is reliant upon other Agency departments to provide data to complete the CA 237 Report. Similarly, these departments had difficulty validating their CalWIN generated extracts and reports. The extract and report validation required additional time and resulted in late submittal of the CA 237 Report. Late submittal of the CA 237 Reports occurred during this time period (October 2006, November 2006 and February 2007). FMS staff communicated with State representatives and advised of the CalWIN system issues which would result in late report submittal.

CA 800

The Single Audit included a review of the CA 800 (Assistance Claim) for the months of November 2006, March 2007, and April 2007. The Agency's ability to accurately complete the CA 800 is dependent upon CalWIN generated extracts and reports, and in 2006 and 2007 CalWIN system problems caused delays in submitting the claim by State submittal timelines.

The Agency developed the necessary auxiliary report validation processes to ensure timely submittal of CA 800 reports, and since May 2007 all reports have been submitted by the State deadline.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-4

**CFDA #93.558 - Temporary Assistance for Needy Families
Allowable Costs/Cost Principles**

Criteria:

U.S. Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (Common Rule) requires that non-federal entities receiving federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition:

During our testing of internal controls over payroll transactions, we noted that, out of a sample size of 35, 5 employees did not have an approving signature from the department supervisor on the time cards. Without adequate internal controls over the approval of time entry, cash payments to the employees could not be readily verified as authorized. Without proper approval, payroll costs may be incorrectly charged to federal programs.

Cause:

Social Services Agency is not adequately enforcing its established policy that all timecards be reviewed and signed by a supervisor to ensure that all payroll costs are being appropriately charged to federal programs.

Questioned Costs:

\$2,716

Recommendation:

We recommend the Social Services Agency enforce its policy on approval of timecards to ensure that the payroll costs are being appropriately charged to federal programs.

Management Response from the Social Services Agency:

Social Services Agency Human Resources Department has taken the following steps to enforce its policy on the approval of timecards by:

- 1) Providing written procedures regarding the review and approval of timecards.
- 2) Performing periodic review/audit of timecards within Agency Departments to ensure accuracy.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2007

Reference Number: 2006-01

Federal Catalog Number: 93.558 Temporary Assistance for Needy Families (TANF)

Audit Finding: Special Tests & Provisions.
Child Support Non-Cooperation - Ten out of fourteen cases tested did not have a notice of action form in the file.
Penalty for Refusal to Work - One out of forty cases tested did not have a notice of action form in the case file.
Income Eligibility and Verification System - Four out of forty-five cases tested were missing case files. In addition, eight cases were missing the IEVS; three case files were missing the CW2.1; and one case file was missing the SAWS-3. One case also did not have an indication of approval from the eligibility worker on the SAWS-2.

Status of Corrective Action: Corrected.

Reference Number: 2006-02

Federal Catalog Number: 14.239 – HOME Investment Partnerships Program

Audit Finding: Monitoring of Eligibility Determination: The Office of Affordable Housing's monitoring process did not include procedures to verify actual rent and annual tenant income eligibility information provided by the owner.

Status of Corrective Action: Corrected.