

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Year Ended June 30, 2011



Certified Public Accountants.

COUNTY OF SANTA CLARA
 Single Audit Reports
 For the Year Ended June 30, 2011

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For the Year Ended June 30, 2011

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The Board of Supervisors
 County of Santa Clara
 San Jose, California

Independent Auditors’ Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (the County), as of and for the fiscal year ended June 30, 2011, 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 certain discrete component units (collectively, “Affiliates”) of the Housing Authority of the County of Santa Clara (the “Housing Authority”), a discrete component unit of the County. In addition, 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 the Los Altos Hills County Fire District (collectively, “Fire Districts”). The financial statements audited by other auditors represent the following percentages of assets and deferred outflows, net assets and revenues as of and for the fiscal year ended June 30, 2011:

Opinion Unit	Assets and Deferred	Net Assets	Revenues
	Outflows		
Governmental activities	3.2%	8.1%	4.0%
Business-type activities	0.6%	1.4%	0.2%
Aggregate discretely presented component units	67.3%	43.7%	19.4%
Aggregate remaining fund information	1.7%	1.7%	0.6%

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, 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, the aggregate discretely presented component units, each major

fund, and the remaining fund information of the County as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1(o) to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2012 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, and 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.

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

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 (SEFA) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) 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 SEFA does not include expenditures of federal awards received by the Housing Authority of the County of Santa Clara (Housing Authority). The Housing Authority's federal expenditures are separately audited in accordance with OMB Circular A-133. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the financial statements as a whole.

 Macias Gini & Connell LLP

Walnut Creek, California

February 7, 2012, except for our report on the schedule of expenditures of federal awards, as to which the date is March 27, 2012

**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, 2011. 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 \$1.63 billion (*net assets*) at June 30, 2011. Of this amount, \$274.1 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to its citizens and creditors and \$397.9 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 \$960.2 million. (See further detail in Table 1 on page 6).
- The County's total net assets increased by \$11.0 million for the year. (See further detail in Table 2 on page 10).
- At June 30, 2011, the County governmental funds reported combined fund balances of \$697.6 million, an increase of \$54.0 million from the prior year. Approximately 35.7 percent of the combined fund balances, \$248.8 million, is available to meet the County's current and future needs.
- The County's investments in capital assets increased by \$98.7 million or 5.7 percent. (See further detail in Table 5 on page 18).
- The County's total long-term debt, net of retirements of \$55.4 million and additions of \$34.7 million for the year, decreased by \$20.7 million or 1.2 percent during the current fiscal year. (See further detail in Table 6 on page 19).
- At June 30, 2011, the County's unassigned fund balance for the General Fund was \$159.7 million or 8.2 percent of total General Fund expenditures.

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 a sanitation district (County Sanitation District No. 2-3 of Santa Clara County).

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 Library, Santa Clara County Vector Control District, County Sanitation District No. 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 26 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 one sanitation operation (County Sanitation District No. 2-3 of Santa Clara County). *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, workers’ compensation, employee benefits, pension obligations 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 nine 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

The *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 - 101 of this report.

Required Supplementary Information

The required supplementary information is presented concerning the County’s progress in funding its obligation to provide pension and other postemployment benefits (OPEB) 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 102 - 116 of this report.

Combining Statements and Schedules

The combining and individual fund statements and schedules referred to earlier provide information for discrete component units, 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 117 - 177 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets exceeded its liabilities by \$1.63 billion (*net assets*) at June 30, 2011. 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 Activities		Business-type Activities		Total		Total	
	2010	2011	2010	2011	2010	2011	Dollar Change	Percent Change
Current and other assets	\$ 1,784,134	\$ 1,992,097	\$ 569,743	\$ 521,356	\$ 2,353,877	\$ 2,513,453	\$ 159,576	6.8%
Capital assets	1,035,660	1,070,707	701,042	764,721	1,736,702	1,835,428	98,726	5.7%
Total assets	2,819,794	3,062,804	1,270,785	1,286,077	4,090,579	4,348,881	258,302	6.3%
Deferred outflows on derivative instrument	-	-	16,122	12,679	16,122	12,679	(3,443)	(-21.4%)
Total assets and deferred outflows on derivative instruments	2,819,794	3,062,804	1,286,907	1,298,756	4,106,701	4,361,560	254,859	6.2%
Current and other liabilities	244,154	397,238	139,144	157,362	383,298	554,600	171,302	44.7%
Long-term liabilities	1,460,492	1,557,191	625,602	604,868	2,086,094	2,162,059	75,965	3.6%
Noncurrent derivative instrument liabilities	-	-	16,122	12,679	16,122	12,679	(3,443)	(-21.4%)
Total liabilities	1,704,646	1,954,429	780,868	774,909	2,485,514	2,729,338	243,824	9.8%
Net assets:								
Invested in capital assets, net of related debt	801,069	851,562	211,047	279,321	889,972	960,230	70,258	7.9%
Restricted net assets	271,433	396,644	329,913	267,510	311,140	397,877	86,737	27.9%
Unrestricted net assets	42,646	(139,831)	(34,921)	(22,984)	420,075	274,115	(145,960)	(-34.7%)
Total net assets	\$ 1,115,148	\$ 1,108,375	\$ 506,039	\$ 523,847	\$ 1,621,187	\$ 1,632,222	\$ 11,035	0.7%

In accordance with GASB guidance, the County reclassified \$266.3 million of the primary government's total net assets amounts from restricted to unrestricted and \$170.7 million from invested in capital assets net of related debt to unrestricted. Additional information on the presentation can be found in Note 11 on page 83 of this report.

Assets

The County's total assets and deferred outflows on derivative instruments increased \$254.9 million or 6.2% percent primarily due to the following:

Governmental activities. Total assets for the governmental activities increased by \$243.0 million mainly because current and other assets increased by \$207.9 million. The primary reasons were increases of \$230.6 million of unrestricted cash, \$114.4 million in net receivables, and \$24.9 million in securities lending (which offsets an equal amount recorded as a liability). These increases were offset by decreases of \$150.2 million in due from other government agencies.

The change in unrestricted cash was due to increases of: \$63.7 million from Proposition 63 funding for mental health programs, \$101.2 million in reduced transfers to Santa Clara Valley Medical Center, \$19.0 million from the issuance of Qualified Energy Conservation Bonds, and \$10.0 million from financing delinquent property taxes.

The increase in net receivables was mainly due to recording an increase \$110.0 million of property tax receivables in the General Fund. During FY 2011, the County issued Teeter Plan Obligation Commercial Paper Notes and proceeds were transferred to the Apportioned Tax Resources Agency Fund (Tax Fund) in exchange for property taxes receivable previously recorded in the Tax Fund.

The increase in security lending collateral was mainly due to the increase in overnight cash at year end.

The decrease in due from other governmental agencies is mainly because of a decrease of \$100.9 million short-term borrowing to the Tax Fund in FY 2010 as the Tax Fund had negative cash position at June 30, 2010. This short-term borrowing was not recorded in FY 2011 due to the issuance of Teeter Plan Obligation Commercial Paper Notes and subsequent transfer of proceeds as discussed above. The County also entered into a settlement agreement with San Jose Redevelopment Agency (see discussion at Note 4) and collected part of the receivable that led to the decreases in due from other governmental agencies of \$16.3 million. There were also decreases

of \$9.3 million from the American Recovery and Reinvestment Act for Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund because the program ended in FY 2011, \$11.6 million because of payments received from Federal and State governments earlier than in prior years, and \$4.0 million because of a receipt of payment from the Milpitas Redevelopment Agency for Elmwood Sale. Also, a decrease resulted from an increase in reserves for potential claims disallowances and mental health overpayments of \$19.8 million.

The decreases in due from other governmental agencies as discussed above were offset by an increase of \$11.4 million in SB90 claims from programs suspended by the state, \$7.6 million in state funding of the In Home Support Services, and \$8.2 million of increased welfare realignment funding from Social Service Agency caseload growth.

Capital assets used to support governmental activities increased by \$35.0 million or 3.4 percent; depreciable capital assets increased by \$72.1 million, while non-depreciable capital assets decreased by \$37.1 million. Changes in capital assets will be discussed in the Capital Assets section on page 17 and Note 6 on page 60.

Business-type activities. Total assets and deferred outflows for the business-type activities increased by \$11.8 million or 0.9 percent. Current and other assets decreased \$48.4 million, capital assets increased \$63.7 million, and deferred outflows on derivative instruments decreased \$3.4 million.

The decrease in current and other assets was mainly due to reductions in restricted cash and investments of \$78.4 million and net receivables of \$20.9 million which were offset by increases in cash and investments of \$6.6 million, due from other governmental agencies of \$11.8 million, and internal balances of \$24.6 million.

Restricted cash and investments decreased by \$78.4 million due to the usage of funds for SCVMC capital projects. Patient accounts receivable, which represent the estimated net realizable value of amounts due from patients and their insurers for health care services, decreased \$20.9 million due to lower volume, a less favorable payor mix, and initiatives to improve the timeliness of collections and adjustments.

Changes in capital assets will be discussed in the Capital Assets section on page 17 and Note 6 on page 60.

Liabilities

The County's total liabilities increased by \$243.8 million or 9.8 percent mainly due to the following:

Governmental activities. Total liabilities for the governmental activities increased by \$249.8 million or 14.7 percent due to an increase of current and other liabilities of \$153.1 million and non-current liabilities of \$96.7 million. The increase in current and other liabilities is mainly due to a \$119.8 million increase in short-term debt and a \$24.9 million increase in security lending collateral (which offsets an equal amount recorded as an asset).

The increase in short-term debt payable is mainly because of in the issuance of Teeter financing commercial paper issued just before the close of the fiscal year in June 2011.

The increase in security lending collateral was due to the increase in overnight cash at year end.

The increase in noncurrent liabilities results primarily from an addition of \$81.6 million in the County's OPEB liability. The County deferred paying a portion of its OPEB annual required contribution in FY 2010 and FY 2011 in order to maintain its working capital in light of the State's budget crisis.

Business-type activities. Total liabilities for the business-type activities decreased by \$6.0 million or 0.8 percent. Long term liabilities decreased by \$24.2 million. Current and other liabilities increased by \$18.2 million.

Noncurrent liabilities decreased by \$20.7 million mainly because of scheduled debt service payments of \$21.5 million during the year.

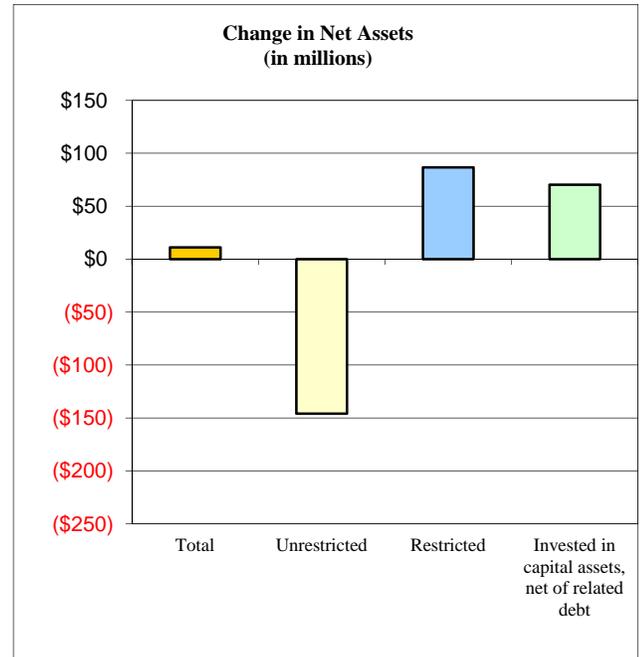
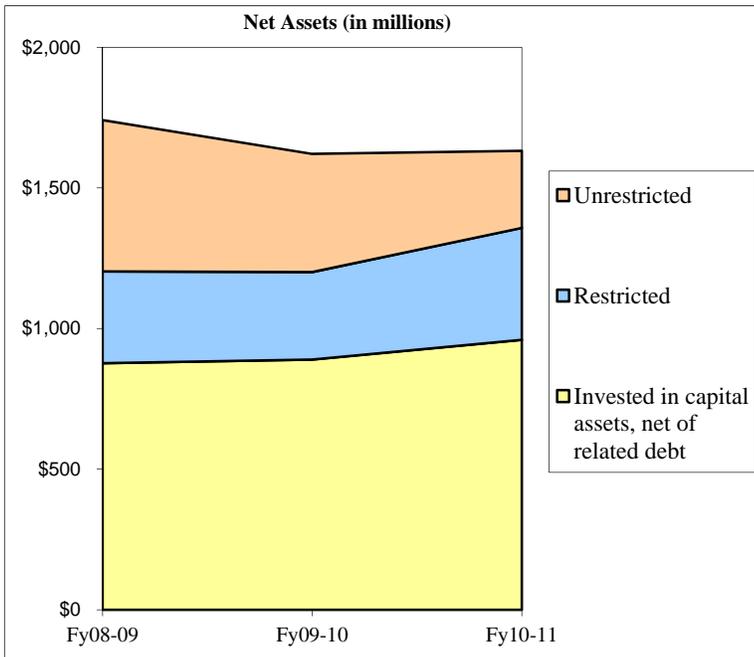
This was offset by an increase in accounts payable of \$17.9 million mainly due to the timing of payment of a significant invoice of \$20.1 million for construction services performed during FY 2011.

Net Assets

The County’s unrestricted net assets of \$274.1 million (16.8 percent) may be used to meet the County’s ongoing obligations to citizens and creditors. The largest portion of the County’s net assets of \$960.2 million (58.8 percent) 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 \$397.9 million (24.4 percent) 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 for its business-type activities with the exception of negative balances of \$139.8 million and \$23.0 million in unrestricted net asset category of its governmental and business-type activities, respectively. As described above, the negative unrestricted net assets balances were offset on the County-wide level through reclassifications of \$266.3 million from restricted and \$170.7 million from invested in capital assets net of related debt.

The County’s net assets increased by \$11.0 million 0.7 percent for the year. This change in net assets is explained below in the context of the County’s governmental and business-type activities.

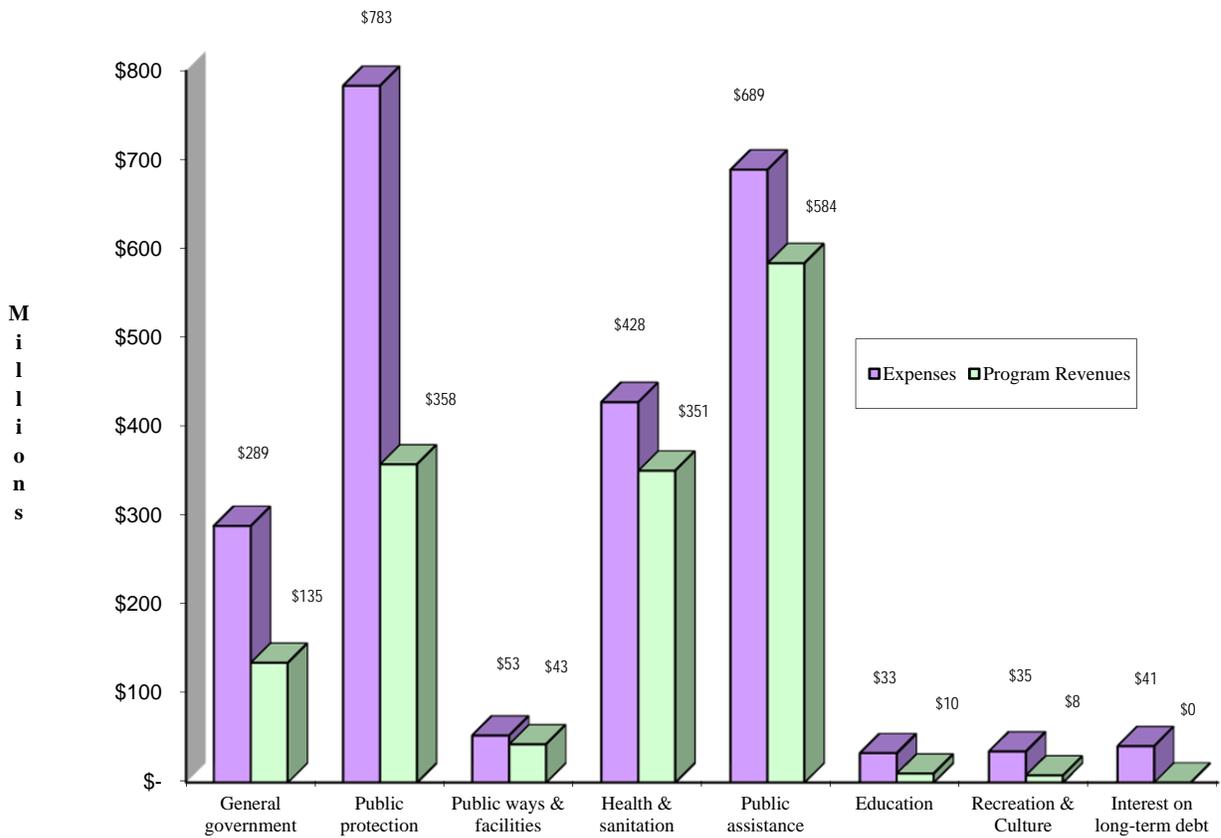


Governmental activities

The governmental activities decreased the County’s net assets by \$6.8 million. Revenues exceeded expenses by \$82.9million. In addition, net transfers of \$89.6 million were made to the business-type activities.

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. Not included in this chart are the general revenues: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. These general revenues are not shown by program, but are available to support the program activities countywide.

Expenses and Revenues - Governmental Activities



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		Business-type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2010	2011	2010	2011	2010	2011	Change	Change
Revenues:								
Program revenues:								
Charges for services	\$ 270,534	\$ 284,299	\$ 821,702	\$ 831,290	\$ 1,092,236	\$ 1,115,589	\$ 23,353	2.1%
Operating grants and contributions	1,109,374	1,197,334	17,810	113,466	1,127,184	1,310,800	183,616	16.3%
Capital grants and contributions	28,488	7,722	7,811	7,503	36,299	15,225	(21,074)	(58.1%)
General revenues:								
Property taxes	800,803	774,406	-	-	800,803	774,406	(26,397)	(3.3%)
Sales and use taxes	4,058	4,911	8,692	8,692	12,750	13,603	853	6.7%
Other taxes	49,645	49,683	-	-	49,645	49,683	38	0.1%
Unrestricted grants & contributions	29,292	28,787	-	-	29,292	28,787	(505)	(1.7%)
Unrestricted investment income	26,575	15,840	4,640	2,166	31,215	18,006	(13,209)	(42.3%)
Securities lending activities	16	12	5	-	21	12	(9)	(42.9%)
Gain on sale of capital assets	4,969	1,785	-	-	4,969	1,785	(3,184)	(64.1%)
Other revenue	76,362	68,877	-	-	76,362	68,877	(7,485)	(9.8%)
Total revenues	2,400,116	2,433,656	860,660	963,117	3,260,776	3,396,773	135,997	4.2%
Program expenses:								
General government	284,992	289,001	-	-	284,992	289,001	4,009	1.4%
Public protection	785,520	783,309	-	-	785,520	783,309	(2,211)	(0.3%)
Public ways and facilities	57,614	52,860	-	-	57,614	52,860	(4,754)	(8.3%)
Health and sanitation	408,223	427,805	-	-	408,223	427,805	19,582	4.8%
Public assistance	692,011	688,475	-	-	692,011	688,475	(3,536)	(0.5%)
Education	35,499	33,283	-	-	35,499	33,283	(2,216)	(6.2%)
Recreation and culture	33,032	34,860	-	-	33,032	34,860	1,828	5.5%
Interest on long-term liabilities	36,499	41,198	-	-	36,499	41,198	4,699	12.9%
SCVMC	-	-	1,041,980	1,028,854	1,041,980	1,028,854	(13,126)	(1.3%)
Airport	-	-	3,729	3,516	3,729	3,516	(213)	(5.7%)
Sanitation District	-	-	2,597	2,577	2,597	2,577	(20)	(0.8%)
Total expenses	2,333,390	2,350,791	1,048,306	1,034,947	3,381,696	3,385,738	4,042	0.1%
Excess (deficiency) before transfers	66,726	82,865	(187,646)	(71,830)	(120,920)	11,035	131,955	(109.1%)
Transfers	(196,028)	(89,638)	196,028	89,638	-	-	-	
Increase (decrease) in net assets	(129,302)	(6,773)	8,382	17,808	(120,920)	11,035	131,955	(109.1%)
Net assets, beginning of year, as previously reported	1,244,450	1,115,148	497,151	506,039	1,741,601	1,621,187	(120,414)	(6.9%)
Prior period adjustment	-	-	506	-	506	-	(506)	(100.0%)
Net assets, beginning of year, as restated	1,244,450	1,115,148	497,657	506,039	1,742,107	1,621,187	(120,920)	(6.9%)
Net assets, end of year	\$ 1,115,148	\$ 1,108,375	\$ 506,039	\$ 523,847	\$ 1,621,187	\$ 1,632,222	\$ 11,035	0.7%

Revenues

The County's governmental activities' revenues increased \$33.5 million or 1.4 percent to \$2.4 billion. The program revenues increased by \$81.0 million or 5.7 percent, while general revenues decreased by \$47.4 million or 4.8 percent. Over the past three years, the County's program revenues from its governmental activities have contributed about 61.6% of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 38.4% of costs.

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 80.8 percent of the County's program revenues and about 48.7 percent of its total revenues. For the year, revenues from grants and contributions increased by \$67.2 million or 5.9 percent, while revenues from charges for services increased by \$13.8 million or 5.1 percent. The grant and contribution amounts incurred increases of \$88.0 million in operating grants and a decrease of \$20.8 million in capital grants. The reasons for these changes will be discussed in the governmental funds area.

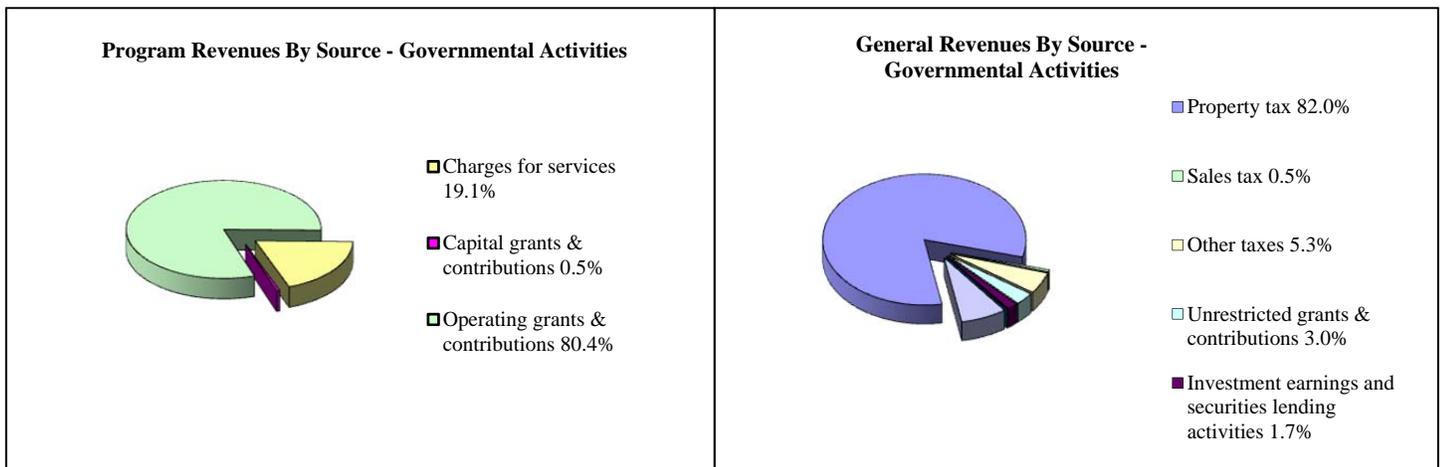
Revenues from charges for services increased \$13.8 million or 5.1 percent. Registrar of Voters election service revenues increased \$3.7 million because a general election was held in FY 2011; whereas, a local election was held in FY 2010. Civil assessments revenue collected by the Department of Revenue increased \$1.8 million because of greater collections and an increased accrual of the revenue. Document recording fees increased \$2.1 million for the Clerk-Recorder’s Office because more documents were recorded and fees were increased. Charges for service from the Sheriff’s Office increased \$3.7 million due to reimbursements from Superior Court for increased service levels at a higher reimbursement rate. Additional information on these changes will be discussed in the governmental funds area.

The County’s governmental activities’ general revenues decreased by \$47.4 million or 4.8 percent from the prior year. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. 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 \$829.0 million in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 87.8 percent of the general revenues and 34.1 percent of the total revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability.

Property tax revenues decreased by \$26.4 million or 3.3 percent from the prior year. Secured tax roll property taxes decreased \$11.4 million because of a decrease in the secured tax roll valuation of 2.0%. Supplemental tax roll property taxes decreased \$5.6 million because of foreclosures and assessed value declines. Taxes no longer deferred decreased \$6.4 million. These topics will be discussed in General Fund Revenue and the Economic Factors sections on pages 15 and 20, respectively.

Investment earnings decreased by \$10.7 million or 40.4 percent. This was mainly due to decreases of \$2.0 million in General Fund interest from lower average daily cash balances, \$1.0 million in escrow holding from Elmwood Jail, and \$6.0 million in Retiree Health Internal Service Fund interest earned.

Other revenues decreased by \$7.5 million or 9.8 percent. A decrease of \$2.9 million in delinquent property tax penalties was due to a reduction in foreclosed property; therefore, the banks paid fewer penalties on foreclosed properties. Additionally, decreasing property values led to fewer supplemental bills being issued and, therefore, fewer penalties charged.



Expenses and Transfers

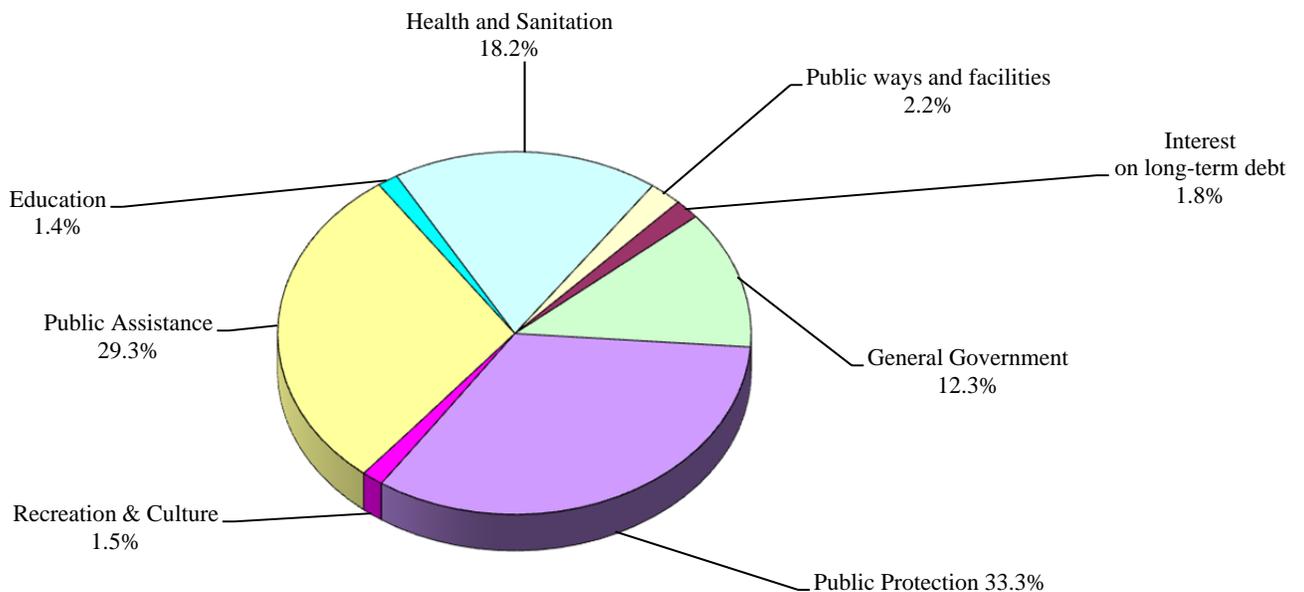
Expenses for governmental activities increased by \$17.4 million or 0.7 percent. All categories experienced lower costs than in the prior year except general government, health and sanitation, recreation and culture, and interest on long-term liabilities. The primary reasons for the changes are explained below:

- Public ways and facilities decreased by \$4.8 million due to winding down of the Measure B Transportation Improvement Program. The sales tax funding for the Measure B Program ended in March 2006 and spending is now limited to residual sales tax amounts collected from tax adjustments and audits.
- Public assistance costs decreased by \$3.5 million or 0.5 percent. Funding from the American Reinvestment and Recovery Act for the Social Services Agency fell by \$14.1 million. This was offset by \$4.7 million in increased payroll costs for Social Services Agency employees, \$4.4 million more in In Home Support Services payments due to caseload growth of 5.0 percent, and an increase of \$1.4 million in central services costs.
- Health and sanitation costs increased by \$19.6 million or 4.8 percent mainly due to an increase in Mental Services Act program costs as the County increased spending for this program to meet certain program deadlines.
- Interest on long-term debt increased by \$4.6 million as two interest payments were made this year for the General Obligation bonds versus one for the prior year.
- General government increased by \$4.0 million due mainly to higher depreciation expenses on capital assets.

Transfers decreased by \$106.4 million to \$89.6 million due primarily to a reduction in operating subsidy made by the General Fund of \$101.2 million during FY 2011 in comparison to the prior year.

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

Expenses By Function/Program - Governmental Activities



Business-type activities

Business-type activities increased the County's net assets by \$17.8 million. The business-type activities had a net loss before transfers of \$71.8 million, which was offset by net transfers of \$89.6 million.

The largest of the County's business-type activities, SCVMC, had \$1.03 billion in expenses and \$947 million in program revenues for the year. This is about 99.4 percent of the program revenues of all business-type activities.

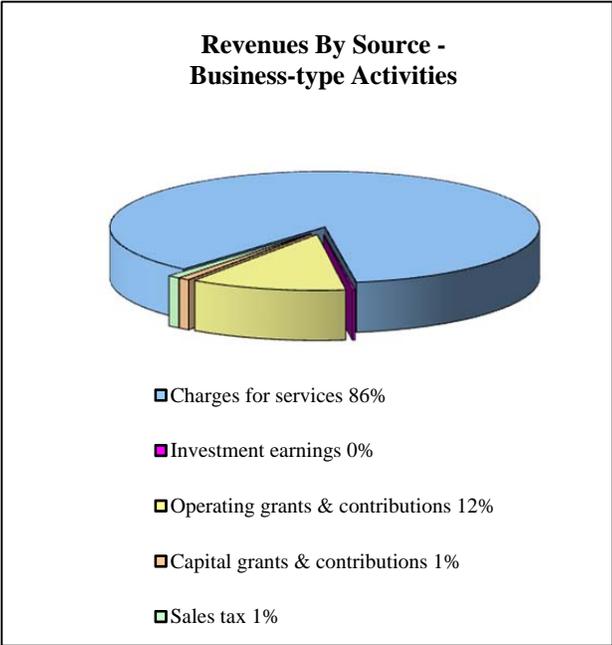
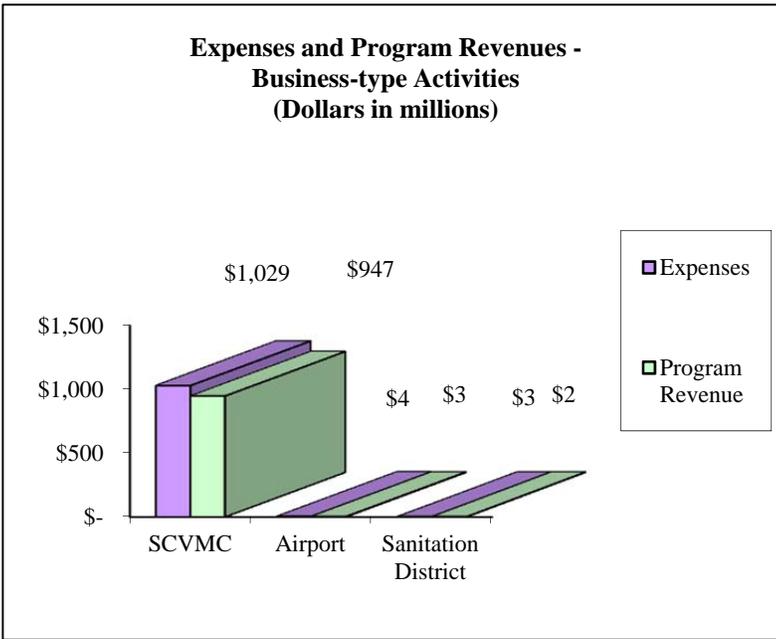
Its program revenues increased by \$96 million primarily due to higher revenues under the Medicaid Waiver and State Hospital Fee program for FY 2011. As part of the renewed 1115 Waiver, CMS authorized California to invest savings generated through the Demonstration to achieve critical objectives, such as improved quality of care and better care coordination through safety net providers. Over 5 years, up to \$6.6 billion in federal funds will be available from a delivery system reform incentive pool (DSRIP), part of a \$15.3 billion safety net care pool. Many key concepts underlying federal health care reform will be tested, evaluated, and refined in California. As a result of participation in the DSRIP, SCVMC received \$51.8 million in fiscal year 2011.

Under the California Hospital Fee Program (AB 1383) and its amending legislation (AB 1653), designated public hospitals will receive direct grants under the Hospital Fee Program (HFP). The legislation also allows the State to retain and use a portion of the direct grants allocated to the designated public hospitals with a provision that the State allocates an equal amount of federal funds available under the Medi-Cal Hospital/Uninsured Care Demonstration Project to the designated public hospitals. The designated public hospital must have incurred sufficient expenditures so that the full amount allocated can be received as federal matching funds. For the year ended June 30, 2011, SCVMC received a \$46.3 million from the HFP.

The services and supplies decreased \$31 million primarily due to lower pharmaceutical costs when compared to prior years.

Also transfers in decreased by \$106.4 million primarily due to the decrease of operating subsidy received, from FY 2010's \$197.8 million to FY 2011's \$96.6 million, a \$101.2 million decrease.

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 general government’s functions are reported in the general, special revenue, debt service, and capital project funds. The focus of these *governmental funds* is to provide information on near-term inflows, outflows, and balances of *unrestricted resources*. Such information is useful in assessing the County’s financing requirements. In particular, unassigned fund balance at the end of the fiscal year can serve as a useful measure of the County’s net resources available for spending.

At June 30, 2011, the County’s governmental funds reported total fund balances of \$697.6 million, an increase of \$54.0 million or 8.4 percent from the prior year. Approximately 35.7 percent of the combined fund balances, \$248.8 million, constitutes fund balance that is available to meet the County’s current and future needs. The remainder of the fund balance totaling \$448.9 million is either in nonspendable form or restricted for specific spending. This includes \$21.8 million of items that are not expected to be converted to cash, such as inventory and long-term loans, and \$427.1 million restricted for programs or other purposes.

For its governmental funds, the County’s total revenues for the current fiscal year were \$2.41 billion—an increase of \$62.1 million or 2.6 percent over the last year. Total governmental fund expenditures decreased by \$30.9 million or 1.3 percent to \$2.29 billion for the year. Primary reasons for these 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 unassigned fund balance was \$159.7 million at June 30, 2011, while its total fund balance was \$246.6 million, a \$10.7 million decrease from the prior year. This was mainly due to an excess of revenues over expenditures of \$15.6 million for the fiscal year, which was offset by \$26.3 million in transfers to other County funds and other financing sources. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance and the total fund balance represent 8.2 percent and 12.6 percent of the total General Fund expenditures, respectively.

The nonspendable and restricted portions of the General Fund's fund balance were \$18.7 million and \$28.3 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$199.6 million. Of this amount, \$159.7 million was unassigned fund balance. The remaining portions of spendable fund balance included \$15.8 million of committed fund balance and \$24.1 million of assigned fund balance. The committed portion represents amounts set aside by the County's highest level of decision-making authority, the Board of Supervisors, for specific purposes. It includes \$10.8 million for Measure B transportation related projects. The assigned amounts include items earmarked by County management and include litigation reserves, amounts encumbered for future purchases, and amounts to be used for future operations.

General Fund revenues and expenditures for the year were \$1.97 billion and \$1.96 billion, respectively. While its revenues decreased by \$2.9 million or 0.1 percent for the year, its expenditures decreased by \$11.8 million or 0.6 percent. The Fund's revenues by sources and expenditures by function as well as changes from the prior fiscal year are presented below:

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

Revenues by source	FY 2010		FY 2011		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 642,514	32.5%	\$ 625,516	31.8%	\$ (16,998)	(2.6%)
Licenses and permits	12,355	0.6%	12,025	0.6%	(330)	(2.7%)
Fines, forfeitures and penalties	67,432	3.4%	64,259	3.3%	(3,173)	(4.7%)
Intergovernmental revenues	1,080,160	54.6%	1,097,449	55.6%	17,289	1.6%
Interest and investment income	11,699	0.6%	8,658	0.4%	(3,041)	(26.0%)
Security lending activities	(8)	0.0%	-	0.0%	8	(100.0%)
Charges for services	134,656	6.8%	143,783	7.3%	9,127	6.8%
Other	26,225	1.3%	20,475	1.0%	(5,750)	(21.9%)
Total	\$ 1,975,033	100.0%	\$ 1,972,165	100.0%	\$ (2,868)	(0.1%)

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

Expenditures by function	FY 2010		FY 2011		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 206,009	10.6%	\$ 197,469	10.2%	\$ (8,540)	(4.1%)
Public protection	669,851	34.0%	662,072	33.8%	(7,779)	(1.2%)
Public ways and facilities	6,860	0.3%	1,472	0.1%	(5,388)	(78.5%)
Health and sanitation	378,430	19.2%	396,090	20.2%	17,660	4.7%
Public assistance	679,910	34.5%	672,098	34.3%	(7,812)	(1.1%)
Capital Outlay	3,771	0.2%	2,845	0.1%	(926)	(24.6%)
Debt service						
Principal retirement	10,799	0.4%	11,557	0.5%	758	7.0%
Interest and fiscal charges	12,742	0.6%	12,924	0.7%	182	1.4%
Totals	\$ 1,968,372	100.0%	\$ 1,956,527	100.0%	\$ (11,845)	(0.6%)

General Fund revenues from intergovernmental revenues, charges for services, and security lending activities increased for the year. Its expenditures for health and sanitation and debt service also increased.

Our discussion on the County's governmental activities identified key reasons for changes in its revenues and expenditures 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 81.9 percent and 85.3 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.

- Net revenues from intergovernmental sources rose by \$17.3 million or 1.6 percent. For the year, revenues from other governmental agencies increased by \$44.2 million due to payments received from the San Jose Redevelopment Agency (Agency). During the fiscal year, the County concluded negotiations over past and future amounts due from the Agency, resulting in a revenue increase of \$39.9 million. In addition, Superior Court, which belongs to the State of California court system, paid \$4.0 million for its share of pension obligation bonds issued in 2007 to pay its pension costs. State revenues increased by \$23.6 million. For this source, \$16.3 million resulted from a change in funding levels between the State and Federal governments for Social Services Agency programs. The State increased its share, but this was offset by a comparable reduction in the amounts to be paid by the Federal government. Additionally, the Public Assistance Program revenues rose by \$8.3 million from increased sales taxes health and welfare realignments paid to the Health Department for caseload growth during the year. These increases were offset by a \$4.5 million decrease in MediCal allocations. Federal revenues fell by \$50.5 million. This was due to a \$16.3 reduction in Social Services Agency program amounts due to the changes in funding levels by the State and Federal governments as described above, \$9.9 million in reduced funding from the American Recovery and Reinvestment Act, and \$24.1 million in the re-allocation of Child Services department and related revenues from the General Fund. A special revenue fund was established for this department and its revenues are now recorded in this new fund.
- Revenues from charges for services increased by \$9.1 million or 6.8 percent. Increases occurred in the following areas: \$3.7 million for the Registrar of Voters as election activity increased for 2011 in comparison to the prior fiscal year, \$3.7 million for the Office of the Sheriff from reimbursements from Superior Court for increased service levels, and \$2.1 million for the Clerk-Recorder's Office as recording fees and activity increased for the year.
- Tax revenues decreased by \$17.0 million or 2.6 percent. This was mainly due to a 2.0 percent decline in secured property assessed values, which reduced various property tax categories by \$11.3 million. In addition, supplemental property tax collections declined by \$5.6 million as assessed values were further reduced by the economic recession and resulting foreclosures that occurred throughout the County.
- 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.

The fund balances for the nonmajor governmental funds increased by \$64.7 million or 16.8 percent to \$450.9 million.

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, 2011, the County's net assets in its enterprise funds were \$581.9 million. The investment in capital assets net of depreciation and related debt was \$279.3 million. The restricted net assets of the enterprise funds were \$267.5 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, 2011 were \$35.1 million.

The net assets of the County's enterprise funds increased by \$33.9 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 99.4 percent of the total revenues and total 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 \$34.6 million. Operating revenues increased by \$105.1 million or 12.6 percent and operating expenses declined by \$21.7 million or 2.2 percent. The net capital contributions and transfers were \$97.1 million for the year. The primary reason for the changes in revenues and expenses were discussed in the business-type activities section. The net assets of SCVMC were \$559.5 million with unrestricted net assets of \$27.8 million. The restricted net assets of SCVMC were \$267.2 million and the net assets invested in capital assets, net of related debt were \$264.5 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 FY 2011 were \$2.3 billion, which were \$42.4 million or 1.9 percent higher than the original budget adopted by the Board of Supervisors. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. Differences between the original and final budgets represent 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 \$139.8 million or 6.2 percent. All revenue sources, except for fines, forfeitures and penalties came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$221.3 million or 9.5 percent for the year. These cost savings resulted from unspent appropriations of: a) \$104.4 million in services and supplies costs for government programs – general government, public protection, public assistance, health and sanitation, and Measure B programs; b) \$87.6 million in contingency reserves; c) \$19.3 million in salaries and benefits costs due to eliminating or not filling vacant positions; d) \$4.6 million in inter-fund transfers set aside for Measure B transportation improvement projects for the Roads Department and \$4.0 million from Special Program amounts originally designated for the Healthy Kids program; e) \$1.2 million in capital assets; and f) \$0.2 million debt service payments.

The General Fund budgetary comparison schedule starts on page 106 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, 2011 was \$1.84 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 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011		
Land	\$ 241,703	\$ 251,328	\$ 6,310	\$ 6,310	\$ 248,013	\$ 257,638	\$ 9,625	3.9%
Buildings & improvements	424,708	480,448	429,730	473,876	854,438	954,324	99,886	11.7%
Infrastructure	170,045	176,181	-	-	170,045	176,181	6,136	3.6%
Equipment and vehicles	43,515	53,784	29,557	31,138	73,072	84,922	11,850	16.2%
Leasehold improvements	-	-	674	570	674	570	(104)	(15.4%)
Construction in progress	155,689	108,966	234,771	252,827	390,460	361,793	(28,667)	(7.3%)
Total	\$ 1,035,660	\$ 1,070,707	\$ 701,042	\$ 764,721	\$ 1,736,702	\$ 1,835,428	\$ 98,726	5.7%

The County's net capital assets increased \$98.7 million or 5.7 percent for the year. Net capital assets for the governmental activities increased by 3.4 percent, while the business-type activities' net capital assets increased by 9.1 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County's capital assets for its governmental activities rose by \$35.0 million as follows:

- Land increased by \$9.6 million mainly due to receipt of the former San Jose City Hall valued at \$8.6 million in accordance with the settlement agreement entered into by the County during FY 2011(see discussion at Note 4).
- Buildings and improvements increased by \$55.7 million due to the completion of the Phase I for Juvenile Hall, Fleet facility, Charcot general government complex and the Casa Grande historical structure in Almaden Quicksilver County Park.
- Infrastructure increased by \$6.1 million. This was due to the completion of the Alviso boat launch and other improvements made to Roads Department projects.
- Equipment rose by \$10.3 million due to the completion of the property tax system in the Tax Collector's Office.
- Construction in progress activities decreased by \$46.7 million as \$57.8 million in activity was offset by \$104.5 million in transfers to other capital asset categories. This included building and improvements of \$68.9 million, infrastructure projects of \$16.5 million, equipment and system enhancements of \$17.3 million, and transfers to Valley Medical Center for \$1.8 million.

Business-type activities

Net capital assets for business-type activities increased by \$63.7 million for the year. This increase was mainly due to current year additions of \$100.8 million in construction for the Seismic Safety Project and other projects, offset by the current year depreciation of \$38.4 million. \$82.7 million of completed projects were also transferred from construction in progress to other capital asset categories during the year.

Commitment of Resources for Construction Work in Progress

At June 30, 2011, the County had committed \$30.3 million of its net assets from the governmental activities and \$144.3 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 60 of this report.

Long-term debt

The County's long-term outstanding debt as of June 30, 2011 was \$1.70 billion as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	Dollar Change	Percent Change
	Lease revenue bonds, net	\$ 260,951	\$ 264,537	\$ 560,006	\$ 539,440	\$ 820,957	803,977	\$ (16,980)
Pension obligation bonds	404,895	409,221	-	-	404,895	409,221	4,326	1.1%
Certificates of participation	4,110	3,936	-	-	4,110	3,936	(174)	(4.2%)
Capital lease obligations	278	459	-	-	278	459	181	65.1%
Capital appreciation bonds	124,575	132,029	-	-	124,575	132,029	7,454	6.0%
General obligation bonds	361,754	346,235	-	-	361,754	346,235	(15,519)	(4.3%)
Total	\$ 1,156,563	\$ 1,156,417	\$ 560,006	\$ 539,440	\$ 1,716,569	\$ 1,695,857	\$ (20,712)	(1.2%)

For its outstanding lease revenue bonds and certificates of participation, the County has maintained an AA rating from the Standard & Poor's (S&P) and an Aa2 rating from the Moody's Investors Service. S&P has also maintained the County's general obligation bond rating of AA+ and Moody's rating of Aa1. 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. Each rating is the highest awarded for short-term notes.

On July 29, 2011 the Fitch Rating service lowered the ratings of the Series 2007 Silicon Valley Tobacco Securitization Authority Tobacco Settlement Asset-Backed Bonds for the Santa Clara County Tobacco Securitization Corporation. The following reductions occurred: Series 2007 A from BBB to BBB-; Series 2007 C from BB- to BB; and Series 2007 D from BB- to B+.

The County's long-term debt decreased by \$20.7 million due to reductions of \$16.9 million in lease revenue bonds and \$15.5 million in General Obligation bonds, offset by increases of \$7.4 million in Tobacco Settlement Asset-Backed bonds and \$4.3 million in Pension Obligation bonds.

For business-type activities, lease revenue bonds decreased \$20.6 million primarily due to a reduction of \$21.6 million because of scheduled debt service payments.

Additional information on the County's long-term debt can be found in Note 9 on page 66 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Following one of the greatest economic downturns since the Great Depression of the 1930's, the County as well as other public and private entities is slowly progressing on the road to fiscal recovery. Although some positive signs have materialized, the economic downturn remains resilient and has created uncertainty and complexity for our organization. The following economic factors were considered in the County's 2012 budget:

- Showing continual positive job growth, the County's unemployment rate for June 2011 was 10.3 percent. This is an improvement from June 2010 when the unemployment rate was 11.4 percent. In comparison, the statewide unemployment rate for June 2011 was 12.1 percent, an increase of 0.2 percent from the prior year.
- The real per capita income (a measure of wealth creation) as of June 2009 (most current available data) decreased from \$58,531 to \$55,169. Despite this decrease, this amount is much higher than the national level of \$39,635.
- Signs have arisen that the housing market may be returning to stability and home prices leveling off. Home sales in each of the past several months have topped the previous month's sales and foreclosures are down 14.0 percent in comparison to a year ago. Also, median home prices held steady at \$598,000 for June of 2011, which mirrors the median price of \$600,000 from a year prior.

- Venture capital investment, a leading indicator of innovation and long-term development, rose 5.0 percent over the previous year, reaching nearly \$5.9 billion. The Silicon Valley region accounted for 27.0 percent of the national total and 53.0 percent of the state's total. Software attracted the largest funding, followed by industrial/energy, biotechnology, and medical devices.
- Research and development (R&D), office, and warehouse space occupancy, which are leading indicators of economic activity, presented varied results compared to the past year. The vacancy rate for R&D space was 15.2 percent in June 2011 versus 20.3 percent a year ago. The office space vacancy rate was 14.9 percent in June 2011 compared to 17.5 percent in June 2010. However, the vacancy rate for warehouse space increased from 12.2 percent in June 2010 to 12.8 percent in June 2011.
- Assessed values for real property, which fell by 2.0 percent, contributed to decrease of \$7.0 million in current secured property tax revenue. The unsecured personal property value decreased by 8.0 percent with a tax decrease of \$0.70 million. The property tax delinquencies on secured property decreased from 2.0 percent in FY 2010 to 1.7 percent in FY 2011. Property tax transfer tax revenues increased by \$1.2 million due to an increase in real estate transactions. Supplemental tax revenues decreased by \$5.6 million as an increase in foreclosures drove market values down. The FY 2012 budget assumes a 1.5 percent increase in secured property assessed values, which corresponds to an increase of \$6.8 million in property tax revenue.

The FY 2012 Countywide budget of \$4.0 billion included over \$220.1 million of deficit reduction solutions, in addition to the \$1.8 billion deficit solutions the County has already implemented since FY 2003. The budget deficit will be met by \$145.1 million in service/cost reductions and revenue increases and \$75.0 million in concessions from labor organizations.

The FY 2012 budget sets aside \$91.6 million in contingency 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.

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.

Basic Financial Statements

COUNTY OF SANTA CLARA

Statement of Net Assets

June 30, 2011

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets and Deferred Outflows:				
Assets:				
Cash and investments	\$ 913,342	\$ 14,258	\$ 927,600	\$ 123,997
Securities lending collateral	33,355	8,583	41,938	-
Receivables, net of allowance for uncollectibles	181,695	111,722	293,417	3,857
Internal balances	56,528	(56,528)	-	-
Due from other governmental agencies	308,408	99,739	408,147	5,008
Due from related parties	-	-	-	50,677
Receivable from component unit	8,085	-	8,085	-
Inventories	3,552	15,579	19,131	-
Net pension asset	366,647	-	366,647	15,896
Other assets	27,693	6,453	34,146	6,083
Restricted cash and investments	92,792	321,550	414,342	43,160
Capital assets:				
Nondepreciable	360,294	259,137	619,431	64,200
Depreciable, net of accumulated depreciation	710,413	505,584	1,215,997	322,935
Total assets	3,062,804	1,286,077	4,348,881	635,813
Deferred outflows on derivative instruments	-	12,679	12,679	-
Total assets and deferred outflows	3,062,804	1,298,756	4,361,560	635,813
Liabilities:				
Accounts payable	73,075	56,325	129,400	9,888
Accrued salaries and benefits	67,273	36,295	103,568	230
Short-term debt payable	119,820	-	119,820	1,659
Accrued liabilities	76,835	12,249	89,084	4,842
Securities lending collateral - due to borrowers	33,355	8,583	41,938	-
Estimated third-party payer settlements	-	25,661	25,661	-
Due to related parties	-	-	-	56,750
Due to other governmental agencies	4,449	14,482	18,931	39,050
Unearned revenue	22,431	3,767	26,198	1,946
Payable to primary government	-	-	-	8,085
Noncurrent liabilities:				
Due within one year	87,569	31,679	119,248	4,938
Due in more than one year	1,469,622	573,189	2,042,811	259,810
Derivative instruments liabilities	-	12,679	12,679	-
Total liabilities	1,954,429	774,909	2,729,338	387,198
Net assets (see Note 11(a)):				
Invested in capital assets, net of related debt	851,562	279,321	960,230	138,074
Restricted for:				
Capital facilities	-	266,277	-	-
Debt service	40,949	1,233	42,182	-
Parks	92,672	-	92,672	-
Housing programs	47,049	-	47,049	-
Roads	48,767	-	48,767	-
Mental health	105,834	-	105,834	-
Other purposes	61,373	-	61,373	93,408
Unrestricted	(139,831)	(22,984)	274,115	17,133
Total net assets	\$ 1,108,375	\$ 523,847	\$ 1,632,222	\$ 248,615

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

COUNTY OF SANTA CLARA

Statement of Activities

For the Fiscal Year Ended June 30, 2011

(In thousands)

	Program Revenues				
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/program activities:					
Primary government:					
Governmental activities:					
General government	\$ 326,692	\$ (37,691)	\$ 93,953	\$ 41,273	\$ -
Public protection	780,605	2,704	137,095	220,632	17
Public ways and facilities	51,838	1,022	1,703	34,788	6,738
Health and sanitation	416,554	11,251	39,003	311,775	-
Public assistance	683,899	4,576	1,110	583,011	-
Education	32,424	859	6,664	3,234	-
Recreation and culture	33,656	1,204	4,771	2,621	967
Interest on long-term liabilities	41,198	-	-	-	-
Total governmental activities	2,366,866	(16,075)	284,299	1,197,334	7,722
Business-type activities:					
SCVMC	1,012,779	16,075	825,989	113,466	7,503
Airport	3,516	-	3,277	-	-
Sanitation District	2,577	-	2,024	-	-
Total business-type activities	1,018,872	16,075	831,290	113,466	7,503
Total primary government	\$ 3,385,738	\$ -	\$ 1,115,589	\$ 1,310,800	\$ 15,225
Component units	\$ 377,070		\$ 307,177	\$ 21,346	\$ 26,640
General revenues:					
Property taxes					
Sales and use taxes					
Other taxes					
Unrestricted motor vehicle in lieu of taxes					
Grants/contributions not restricted to specific programs					
Investment income					
Securities lending activities:					
Securities lending income					
Securities lending expenses					
Gain on sale of capital assets					
Other:					
Penalties on delinquent taxes					
Tobacco settlement revenues					
Miscellaneous revenues					
Transfers					
Total general revenues and transfers					
Change in net assets					
Net assets, beginning of year, as previously reported					
Prior period adjustment					
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.

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:
\$ (153,775)	\$ -	\$ (153,775)	\$ -	General government
(425,565)	-	(425,565)	-	Public protection
(9,631)	-	(9,631)	-	Public ways and facilities
(77,027)	-	(77,027)	-	Health and sanitation
(104,354)	-	(104,354)	-	Public assistance
(23,385)	-	(23,385)	-	Education
(26,501)	-	(26,501)	-	Recreation and culture
(41,198)	-	(41,198)	-	Interest on long-term liabilities
<u>(861,436)</u>	<u>-</u>	<u>(861,436)</u>	<u>-</u>	Total governmental activities
				Business-type activities:
-	(81,896)	(81,896)	-	SCVMC
-	(239)	(239)	-	Airport
-	(553)	(553)	-	Sanitation District
-	<u>(82,688)</u>	<u>(82,688)</u>	<u>-</u>	Total business-type activities
<u>(861,436)</u>	<u>(82,688)</u>	<u>(944,124)</u>	<u>-</u>	Total primary government
-	-	-	(21,907)	Component units
				General revenues:
774,406	-	774,406	-	Property taxes
4,911	8,692	13,603	-	Sales and use taxes
322	-	322	-	Other taxes
49,361	-	49,361	-	Unrestricted motor vehicle in lieu of taxes
28,787	-	28,787	-	Grants/contributions not restricted to specific programs
15,840	2,166	18,006	2,901	Investment income
				Securities lending activities:
48	14	62	-	Securities lending income
(36)	(14)	(50)	-	Securities lending expenses
1,785	-	1,785	-	Gain on sale of capital assets
				Other:
43,026	-	43,026	-	Penalties on delinquent taxes
15,527	-	15,527	-	Tobacco settlement revenues
10,324	-	10,324	28,027	Miscellaneous revenues
<u>(89,638)</u>	<u>89,638</u>	<u>-</u>	<u>-</u>	
<u>854,663</u>	<u>100,496</u>	<u>955,159</u>	<u>30,928</u>	Transfers
(6,773)	17,808	11,035	9,021	Total general revenues and transfers
1,115,148	506,039	1,621,187	188,814	Change in net assets
-	-	-	50,780	Net assets, beginning of year, as previously reported
<u>1,115,148</u>	<u>506,039</u>	<u>1,621,187</u>	<u>239,594</u>	Prior period adjustment
\$ <u>1,108,375</u>	\$ <u>523,847</u>	\$ <u>1,632,222</u>	\$ <u>248,615</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, 2011
(In thousands)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 223,318	\$ 420,021	\$ 643,339
Restricted with fiscal agents	65	15,745	15,810
Other restricted	143	62,788	62,931
Securities lending collateral	8,574	12,289	20,863
Receivables:			
Property taxes	114,243	-	114,243
Other, net of allowance for uncollectibles	16,609	42,901	59,510
Due from other funds	16,660	8,858	25,518
Due from other governmental agencies	289,521	18,391	307,912
Inventories	1,493	923	2,416
Other assets	17,175	564	17,739
Total assets	<u>\$ 687,801</u>	<u>\$ 582,480</u>	<u>\$ 1,270,281</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 58,040	\$ 9,530	\$ 67,570
Accrued salaries and benefits	56,390	9,199	65,589
Short-term debt payable	119,820	-	119,820
Other accrued liabilities	46,275	12,389	58,664
Securities lending collateral - due to borrowers	8,574	12,289	20,863
Due to other funds	2,967	22,949	25,916
Due to other governmental agencies	3,943	334	4,277
Advances from other funds	-	16,040	16,040
Deferred revenue	145,148	48,753	193,901
Total liabilities	<u>441,157</u>	<u>131,483</u>	<u>572,640</u>
Fund balances:			
Nonspendable	18,668	3,085	21,753
Restricted	28,343	398,765	427,108
Committed	15,757	28,945	44,702
Assigned	24,146	20,202	44,348
Unassigned	159,730	-	159,730
Total fund balances	<u>246,644</u>	<u>450,997</u>	<u>697,641</u>
Total liabilities and fund balances	<u>\$ 687,801</u>	<u>\$ 582,480</u>	<u>\$ 1,270,281</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, 2011
(In thousands)

Fund balances - total governmental funds (page 24)	\$ 697,641
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.	1,061,989
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.	6,020
Other long-term receivables are not available to pay for current period expenditures and therefore are deferred in the funds.	171,470
Long-term receivables with matching long term liabilities, including receivables from the Housing Authority, are not current financial resources and therefore are not reported in the governmental funds.	8,085
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 retiree healthcare and pension obligation to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.	83,345
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 (excludes Pension Funding Bonds recorded in internal service funds)	\$ (746,737)
Accrued vacation and sick leave	(124,980)
Capital lease obligations	(459)
Accrued interest payable	(10,756)
Arbitrage liabilities	(172)
Net OPEB obligations - Santa Clara Central Fire Protection District	(34,571)
Accrued litigation liability	(2,500)
	<u>(920,175)</u>
Net assets - governmental activities (page 21)	<u>\$ 1,108,375</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, 2011
(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 625,516	\$ 162,903	\$ 788,419
Licenses and permits	12,025	18,001	30,026
Fines, forfeitures, and penalties	64,259	9,072	73,331
Interest and investment income	8,658	5,636	14,294
Securities lending activities:			
Securities lending income	18	14	32
Securities lending expenditures	(18)	(7)	(25)
Intergovernmental revenues	1,097,449	196,129	1,293,578
Charges for services	143,783	38,922	182,705
Other revenue	20,475	5,494	25,969
	<hr/>	<hr/>	<hr/>
Total revenues	1,972,165	436,164	2,408,329
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
General government	197,469	149	197,618
Public protection	662,072	96,763	758,835
Public ways and facilities	1,472	50,495	51,967
Health and sanitation	396,090	27,065	423,155
Public assistance	672,098	6,854	678,952
Education	-	31,801	31,801
Recreation and culture	-	33,181	33,181
Capital outlay	2,845	51,955	54,800
Debt service:			
Principal retirement	11,557	20,165	31,722
Interest and fiscal charges	12,924	19,130	32,054
Cost of issuance	-	231	231
	<hr/>	<hr/>	<hr/>
Total expenditures	1,956,527	337,789	2,294,316
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	15,638	98,375	114,013
	<hr/>	<hr/>	<hr/>
Other financing sources (uses):			
Proceeds from sale of capital assets	4,000	2,466	6,466
Capital lease financing	-	520	520
Bonds issuance	-	20,368	20,368
Transfers in	126,228	71,414	197,642
Transfers out	(156,547)	(128,420)	(284,967)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(26,319)	(33,652)	(59,971)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(10,681)	64,723	54,042
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	257,325	386,274	643,599
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 246,644	\$ 450,997	\$ 697,641
	<hr/>	<hr/>	<hr/>

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, 2011
(In thousands)

Net change in fund balances - total governmental funds (page 26)	\$	54,042
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	\$	73,088
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)		(681)
Transfer of capital assets to business-type activities		(1,813)
Less current year depreciation		<u>(36,042)</u>
		34,552
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. Capital leases are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.		
		(520)
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		231
Amortization of bond issuance costs		<u>(234)</u>
		(3)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		22,467
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.		
		(42,016)
Issuance and refunding of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance and refunding changes long-term liabilities in the statement of net assets and do not affect the statement of activities.		
		(20,368)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		31,966
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 and deferred loss on refunding		753
Change in accrued interest payable		(2,513)
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds		(7,454)
Change in arbitrage liabilities		70
Change in net OPEB obligations - Santa Clara Central Fire Protection District		(11,249)
Change in long-term compensated absences		<u>1,332</u>
		(19,061)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported with governmental activities.		
		<u>(67,832)</u>
Change in net assets of governmental activities (page 23)	\$	<u><u>(6,773)</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, 2011

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	SCVMC	Other	Total	Internal Service Funds
Assets and Deferred Outflows:				
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	\$ 6,345	\$ 7,913	\$ 14,258	\$ 270,003
Restricted with fiscal agent	-	736	736	13,685
Other restricted	320,814	-	320,814	366
Securities lending collateral	8,469	114	8,583	12,492
Receivables:				
Patient accounts receivable, net of estimated uncollectables	110,207	-	110,207	-
Other	1,419	96	1,515	7,942
Due from other funds	7,255	-	7,255	-
Due from other governmental agencies	99,739	-	99,739	496
Inventories	15,579	-	15,579	1,136
Prepaid rent/insurance	2,807	-	2,807	1,465
Total current assets	<u>572,634</u>	<u>8,859</u>	<u>581,493</u>	<u>307,585</u>
Noncurrent assets:				
Advances to other funds	-	-	-	16,040
Net pension asset	-	-	-	366,647
Other assets	3,476	170	3,646	2,469
Capital assets:				
Nondepreciable	254,845	4,292	259,137	1,295
Depreciable, net of accumulated depreciation	490,363	15,221	505,584	7,423
Total noncurrent assets	<u>748,684</u>	<u>19,683</u>	<u>768,367</u>	<u>393,874</u>
Total assets	<u>1,321,318</u>	<u>28,542</u>	<u>1,349,860</u>	<u>701,459</u>
Deferred outflows on derivative instruments	12,679	-	12,679	-
Total assets and deferred outflows	<u>1,333,997</u>	<u>28,542</u>	<u>1,362,539</u>	<u>701,459</u>
Liabilities:				
Current liabilities:				
Accounts payable	55,830	495	56,325	5,505
Accrued salaries and benefits	36,235	60	36,295	1,684
Accrued liabilities	12,086	163	12,249	7,415
Securities lending collateral - due to borrower:	8,469	114	8,583	12,492
Due to other funds	5,690	-	5,690	1,167
Due to third-party payers	25,661	-	25,661	-
Due to other governmental agencies	14,482	-	14,482	-
Unearned revenue	3,678	89	3,767	-
Current portion of insurance claims	-	-	-	36,903
Current portion of accrued vacation and sick leave	10,373	8	10,381	203
Current portion of bonds payable	21,129	169	21,298	2,990
Total current liabilities	<u>193,633</u>	<u>1,098</u>	<u>194,731</u>	<u>68,359</u>
Noncurrent liabilities:				
Noncurrent portion of insurance claims	-	-	-	78,420
Noncurrent portion of accrued vacation and sick leave	54,958	89	55,047	3,388
Noncurrent portion of bonds payable	513,193	4,949	518,142	406,231
Net OPEB obligation	-	-	-	119,809
Total noncurrent liabilities	<u>568,151</u>	<u>5,038</u>	<u>573,189</u>	<u>607,848</u>
Derivative instruments liabilities:	12,679	-	12,679	-
Total liabilities	<u>774,463</u>	<u>6,136</u>	<u>780,599</u>	<u>676,207</u>
Net assets:				
Invested in capital assets, net of related debt	264,486	14,835	279,321	8,718
Restricted:				
Capital facilities	266,277	-	266,277	-
Debt service	937	296	1,233	-
Unrestricted	27,834	7,275	35,109	16,534
Total net assets	<u>\$ 559,534</u>	<u>\$ 22,406</u>	<u>581,940</u>	<u>\$ 25,252</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds			(58,093)	
Net assets of business-type activities			<u>\$ 523,847</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, 2011
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Operating revenues:				
Charges for services	\$ 825,989	\$ 5,301	\$ 831,290	\$ 202,660
Other program revenues	113,466	-	113,466	-
Net operating revenues	<u>939,455</u>	<u>5,301</u>	<u>944,756</u>	<u>202,660</u>
Operating expenses:				
Salaries and benefits	682,513	1,293	683,806	171,811
Services and supplies	94,003	961	94,964	21,521
General and administrative	96,118	-	96,118	4,485
Professional services	35,854	551	36,405	748
Depreciation	37,380	991	38,371	3,615
Amortization of net pension asset	-	-	-	(4,997)
Leases and rentals	7,531	-	7,531	35
Utilities	11,052	-	11,052	-
Insurance claims and premiums	7,917	14	7,931	74,156
Other	6,017	1,971	7,988	-
Total operating expenses	<u>978,385</u>	<u>5,781</u>	<u>984,166</u>	<u>271,374</u>
Operating loss	<u>(38,930)</u>	<u>(480)</u>	<u>(39,410)</u>	<u>(68,714)</u>
Nonoperating revenues (expenses):				
Taxes	8,692	-	8,692	-
Investment income	2,106	60	2,166	8,766
Interest expense	(22,430)	(249)	(22,679)	(24,353)
Securities lending activities:				
Securities lending income	14	-	14	16
Securities lending expenses	(14)	-	(14)	(11)
Gain (loss) on disposal of capital assets	(503)	(13)	(516)	358
Other, net	(11,435)	-	(11,435)	455
Total nonoperating revenues (expenses), net	<u>(23,570)</u>	<u>(202)</u>	<u>(23,772)</u>	<u>(14,769)</u>
Loss before capital contributions and transfers	<u>(62,500)</u>	<u>(682)</u>	<u>(63,182)</u>	<u>(83,483)</u>
Capital contributions	7,503	-	7,503	-
Capital contributions transferred in from other County funds	1,813	-	1,813	-
Transfers in	108,860	11	108,871	-
Transfers out	(21,046)	-	(21,046)	(500)
Change in net assets	<u>34,630</u>	<u>(671)</u>	<u>33,959</u>	<u>(83,983)</u>
Net assets, beginning of year	<u>524,904</u>	<u>23,077</u>	<u>547,981</u>	<u>109,235</u>
Net assets, end of year	<u>\$ 559,534</u>	<u>\$ 22,406</u>	<u>\$ 581,940</u>	<u>\$ 25,252</u>
Change in net assets of enterprise funds			\$ 33,959	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			<u>(16,151)</u>	
Change in net assets of business-type activities:			<u>\$ 17,808</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, 2011
(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	\$ 948,142	\$ 5,269	\$ 953,411	\$ 203,956
Cash payment to suppliers for goods and services	(258,559)	(3,253)	(261,812)	(25,677)
Cash payment to employees for services	(681,831)	(1,336)	(683,167)	(31,821)
Cash payment for retirement benefits	-	-	-	(58,350)
Cash payment for judgments and claims	-	-	-	(67,815)
Other payments	(11,435)	-	(11,435)	-
Other receipts	-	-	-	455
Net cash provided by (used in) operating activities	(3,683)	680	(3,003)	20,748
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	9,019	-	9,019	-
Cash receipts from short term borrowings to other funds	-	-	-	8,085
Cash payments to other funds	(40,785)	-	(40,785)	(606)
Principal paid on pension obligation bonds	-	-	-	(2,020)
Interest paid on pension obligation bonds	-	-	-	(17,949)
Transfers in	108,860	11	108,871	-
Transfers out	(21,046)	-	(21,046)	(500)
Net cash provided by (used in) noncapital financing activities	56,048	11	56,059	(12,990)
Cash flows from capital and related financing activities:				
Repayment of capital leases	-	-	-	(95)
Principal paid on bonds	(21,473)	(160)	(21,633)	-
Interest paid	(23,401)	(247)	(23,648)	(5)
Acquisition of capital assets	(85,729)	(170)	(85,899)	(4,123)
Proceeds from sale of capital assets	-	-	-	371
Capital contributions received	4,039	-	4,039	-
Net cash used in capital and related financing activities	(126,564)	(577)	(127,141)	(3,852)
Cash flows from investing activities:				
Purchases of investments	-	-	-	(8,657)
Proceeds from sale of investments	-	-	-	4,552
Investment income received	2,177	60	2,237	8,186
Investment expenses paid	(14)	-	(14)	(53)
Net cash provided by investing activities	2,163	60	2,223	4,028
Net change in cash and cash equivalents	(72,036)	174	(71,862)	7,934
Cash and cash equivalents, beginning of year	399,195	8,475	407,670	130,537
Cash and cash equivalents, end of year	\$ 327,159	\$ 8,649	\$ 335,808	\$ 138,471
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	\$ 6,345	\$ 7,913	\$ 14,258	\$ 270,003
Restricted with fiscal agents	-	736	736	13,685
Other restricted	320,814	-	320,814	366
Less deposits and investments not meeting the definition of cash and cash equivalents	-	-	-	(145,583)
Total cash and cash equivalents	\$ 327,159	\$ 8,649	\$ 335,808	\$ 138,471

(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, 2011
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (38,930)	\$ (480)	\$ (39,410)	\$ (68,714)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	37,380	991	38,371	3,615
Amortization of net pension assets	-	-	-	(4,997)
Provision for bad debts	6,208	-	6,208	-
Miscellaneous nonoperating revenues (expenses), net	(11,435)	-	(11,435)	455
Decrease (increase) in assets:				
Receivables	14,663	(22)	14,641	1,265
Due from other governmental agencies	(7,074)	1	(7,073)	34
Inventories	(3,127)	-	(3,127)	130
Prepaid rent/insurance	(877)	-	(877)	-
Other assets	-	7	7	112
Increase (decrease) in liabilities:				
Accounts payable	2,789	233	3,022	1,851
Accrued salaries and benefits	-	(3)	(3)	-
Accrued liabilities	1,830	4	1,834	71
Due to third-party payers	(5,469)	-	(5,469)	-
Accrued vacation and sick leave	-	(40)	(40)	(2)
Insurance claims	-	-	-	5,359
Unearned revenue	359	(11)	348	(2)
Net OPEB obligation	-	-	-	81,571
Net cash provided by (used in) operating activities	<u>\$ (3,683)</u>	<u>\$ 680</u>	<u>\$ (3,003)</u>	<u>\$ 20,748</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	\$ 1,813	\$ -	\$ 1,813	\$ -
Acquisition of capital assets through accounts payable	26,717	-	26,717	-
Amortization of discounts, premiums and deferred loss on refunding	1,066	-	1,066	-
Amortization of deferred charges	309	-	309	-
Noncash investing activities:				
Decrease in rebatable arbitrage	(207)	-	(207)	-
Net change in fair value of investments not considered cash and cash equivalents	-	-	-	638
Noncash noncapital financing activities:				
Accretion of interest on capital appreciation bonds	-	-	-	6,346

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, 2011

(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 2,758,472	\$ 53,186	\$ 139,504
Other restricted	5	563	1,145
Securities lending collateral	66,207	1,363	666
Receivables:			
Interest	10,057	212	8,070
Other	-	763	149
Due from other governmental agencies	-	-	721
Other assets	-	33,260	2,467
Total assets	<u>2,834,741</u>	<u>89,347</u>	<u>\$ 152,722</u>
Liabilities:			
Accounts payable	-	37,399	\$ -
Other accrued liabilities	-	1,228	-
Securities lending collateral - due to borrowers	66,207	1,363	666
Due to other governmental agencies	-	170	2
Deposits from others	-	33,345	-
Fiduciary liabilities	-	-	152,054
Total liabilities	<u>66,207</u>	<u>73,505</u>	<u>\$ 152,722</u>
Net assets:			
Net assets held in trust for investment pool participants/private-purpose trust	<u>\$ 2,768,534</u>	<u>\$ 15,842</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, 2011
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	\$ 18,011,787	\$ 3,167
Interest and investment income	21,458	259
Securities lending activities:		
Securities lending income	95	2
Securities lending expenses	(55)	(1)
Total additions	18,033,285	3,427
Deductions:		
Distributions and administrative expenses	17,899,163	898
Change in net assets	134,122	2,529
Net assets held in trust, beginning of year	2,634,412	13,313
Net assets held in trust, end of year	\$ 2,768,534	\$ 15,842

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

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**Basic Financial
Statements –
Notes to the Basic Financial
Statements**

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements
June 30, 2011
(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 of Supervisors 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, 2011
(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 Library	Nonmajor governmental funds
Santa Clara County Vector Control District	Nonmajor governmental funds
County Sanitation District 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 (FIRST 5) 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. Its board consists of nine members, two of whom are officers of the County, while the remaining seven 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 twelve non-profit organizations and one for-profit corporation to further facilitate its goals. During the

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

fiscal year, the Governmental Accounting Standards Board (GASB) issued guidance related to the treatment of housing authorities as general partners of limited tax credit partnerships whereby limited partners have limited rights regarding the operations of the partnership and the housing authority possesses essentially all authority over day-to-day operations. Prior to this guidance, the Housing Authority has discretely presented the financial position and results of operations of the general partners' interests. After evaluating the recent guidance, the Housing Authority decided to restate the beginning net assets of its component units in the amount of \$50.8 million to include the limited partners' interests. The Housing Authority's government-wide statement of net assets presents the combined data of the component 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, 2010 and May 31, 2011. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 675 North First Street, Suite 500, San Jose, California, 95110.

(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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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 benefits, 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.

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 and printing services provided to County departments; life and dental insurance benefits, workers' compensation, unemployment, retirement healthcare, and pension costs for County employees; and other liability claims against the County.
- *Investment Trust Funds* account for commingled pool assets held in trust for schools, 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, Foothill De Anza Community College District, West Valley Mission Community College District, and Mountain View – Los Altos School District.
- *Private Purpose Trust Funds* are 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 Superior Court; 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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, revenues from property taxes are 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.

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 360 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 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 Pool*

The County Treasurer manages a common cash and investment pool 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, 2011

(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 62% 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, 2011, 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.

Separate 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.

Separate investments held by the County Treasury are also 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, 2011
(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 nonspendable 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, \$100 for internally generated software, 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 and other intangible assets) 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, 2011
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Interest is capitalized on proprietary funds' construction in progress in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 835-20, *Capitalization of Interest* (formerly 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:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	October 1	July 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

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, 2011

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(k) *Interfund Transactions*

Interfund transactions are reflected as 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.” 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, and 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 refunding, 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, 2011
(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. Unused vacation and sick leave are paid out upon separation from the County based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and the County. 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) *Effects of New Pronouncements*

During the year ended June 30, 2011, the County implemented the following GASB Statements:

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Statement No. 54). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under previous reporting standards, the County's governmental fund balances were reported under two categories: reserved and unreserved. The new reporting standard replaces these two fund balance categories with five new classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Additional disclosure concerning the implementation of GASB Statement No. 54 is found in Note 11.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools which improve financial reporting by providing more complete information, by providing consistency of measurements, and by providing clarifications of existing standards. This standard did not have any effect on the County's financial statements.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government ("transferor") engages a company or another government

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(“operator”) to operate a major capital asset in return for the right to collect fees from users of the capital asset. Application of this Statement is effective for the County’s fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances. Application of this Statement is effective for the County’s fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (“FASB”) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (“AICPA”) Committee on Accounting Procedure

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement will improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the County’s fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the County’s fiscal year ending June 30, 2013.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The requirements of this Statement are effective for the County's fiscal year ending June 30, 2012.

(p) *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.

(2) Stewardship, Compliance and Accountability

Deficit Net Assets

At June 30, 2011, the Unemployment Insurance, Workers' Compensation, and the Pension Obligation Internal Service Funds have deficit net assets of \$349, \$33,693, and \$47,683, 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: various debt service funds, 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(3) Cash and Investments (Continued)

anticipated operating requirements, and to 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 trustees 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>	<u>Credit Ratings Minimum (2 Ratings)</u>
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	None	N/A
Repurchase Agreements	92 days	None	None	N/A
Reverse Repurchase Agreements	92 days	20%	\$90 million *	None
Securities Lending	92 days	20% *	None	N/A
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	7.5% of the 30% *	A-1+/P-1/F1+*
Bankers' Acceptances	180 days	40%	15% of the 40% *	A-1+/P-1/F1+
Commercial Paper	270 days	40%	10%	A-1+/P-1/F1+
Medium-Term Corporate Notes	5 years	30%	10% of the 30% *	Aa3/AA-/AA-*
Municipal Obligations	5 years	10% *	None	MIG-1/SP-1/F1 A3/A-/A-
Money Market Funds	N/A	20%	10%	Aaa/AAA/AAA
Federal Agency Mortgage Backed Securities	5 years	20% *	None	None
Asset Backed Securities	5 years	20%	None	A3/A-/A- for issuer, Aa3/AA-/AA- for security

* Represents restriction in which the County’s investment policy is more restrictive than the California Code.

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, Standard and Poor’s rating of A- or higher, or Fitch’s rating of A- or higher at time of purchase and may have its fixed income holdings structured with sector concentrations comparable to those of the Barclays Capital Aggregate Bond Index (formerly called the “Lehman Aggregate Bond 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	Unrestricted	Restricted	Securities Lending Collateral	Total
Primary Government	\$ 927,600	\$ 414,342	\$ 41,938	\$ 1,383,880
Component Units	123,997	43,160	-	167,157
Investment Trust Funds	2,758,472	5	66,207	2,824,684
Private-Purpose Trust Fund	53,186	563	1,363	55,112
Agency Funds	139,504	1,145	666	141,315
Total cash and investments	<u>\$ 4,002,759</u>	<u>\$ 459,215</u>	<u>\$ 110,174</u>	<u>\$ 4,572,148</u>

The County's cash and investments are as follows:

Cash and deposits:	
Cash on hand	\$ 85
Deposits of the County	13,933
Restricted deposits	2,951
Deposits with component units:	
Housing Authority	56,872
FIRST 5	<u>5,154</u>
Total cash and deposits	<u>78,995</u>
Investments:	
With Treasurer	4,247,617
With fiscal agents	30,231
With Housing Authority	30,514
With FIRST 5	74,617
With Securities Lending Program	<u>110,174</u>
Total investments	<u>4,493,153</u>
Total cash, deposits and investments	<u>\$ 4,572,148</u>

(d) 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(3) Cash and Investments (Continued)

(e) Investment Composition

As of June 30, 2011, the major classes of the County's cash and investments consisted of the following:

	Interest Rates	Par Value	Fair Value	Investment Maturities (in years)				
				0 - 1	1 - 3	3 - 5	5 - 10	10 - 30
With Treasurer:								
Commingled pool:								
U.S. Treasury Notes	0.75% - 1.00%	\$ 45,000	\$ 45,073	\$ 45,073	\$ -	\$ -	\$ -	\$ -
U.S. Agencies - Coupon								
Not on securities loan	0.25% - 5.38%	1,435,439	1,455,678	221,707	1,046,192	187,779	-	-
Loaned securities for cash collateral	1.00% - 3.88%	95,852	98,348	-	80,586	17,762	-	-
U.S. Agencies - Discount	0.15% - 0.26%	50,000	49,983	49,983	-	-	-	-
Medium-term corporate notes	0.42% - 6.95%	605,220	615,020	222,705	367,730	24,585	-	-
Asset Backed Securities	0.64% - 4.43%	155,757	157,891	-	58,273	99,618	-	-
Municipal Bonds	0.21%	16,021	16,021	16,021	-	-	-	-
Commercial paper	0.04% - 0.41%	890,927	890,702	890,702	-	-	-	-
Negotiable Certificates of Deposit	0.26% - 0.54%	150,000	150,063	150,063	-	-	-	-
Money Market Mutual Funds	0.08% - 0.12%	430,349	430,349	430,349	-	-	-	-
State Local Agency Investment Fund	0.37%	40,000	40,063	40,063	-	-	-	-
Less with FIRST 5		(9,429)	(9,429)	(9,429)	-	-	-	-
Subtotal commingled pool		<u>3,905,136</u>	<u>3,939,762</u>	<u>2,057,237</u>	<u>1,552,781</u>	<u>329,744</u>	<u>-</u>	<u>-</u>
Separate investments:								
U.S. Treasury Notes		23,140	25,305	-	-	16,347	5,620	3,338
Loaned securities for cash collateral		8,100	9,248	-	-	-	3,829	5,419
U.S. Agencies - Coupon		26,516	27,790	19,906	-	-	2,288	5,596
U.S. Agencies - Mortgage backed securities		47,724	51,035	-	-	-	5,206	45,829
Medium-term corporate notes		37,127	38,115	6,760	7,310	7,016	11,624	5,405
Municipal bonds		24,575	24,731	21,400	3,331	-	-	-
Money market mutual funds		120,104	120,104	120,104	-	-	-	-
Stock mutual funds:								
Vanguard 500 Index Fund		11,227	11,527	11,527	-	-	-	-
Subtotal separate investments		<u>298,513</u>	<u>307,855</u>	<u>179,697</u>	<u>10,641</u>	<u>23,363</u>	<u>28,567</u>	<u>65,587</u>
Subtotal with Treasurer		<u>4,203,649</u>	<u>4,247,617</u>	<u>2,236,934</u>	<u>1,563,422</u>	<u>353,107</u>	<u>28,567</u>	<u>65,587</u>
With fiscal agents:								
U.S. Treasury Notes		2,310	2,375	-	1,545	830	-	-
U.S. Agencies - Coupon		15,235	15,777	9,591	3,985	2,201	-	-
U.S. Agencies - Discount		535	541	541	-	-	-	-
Medium-term corporate notes		3,525	3,665	1,368	1,713	584	-	-
Money market mutual funds		7,873	7,873	7,873	-	-	-	-
Subtotal with fiscal agents		<u>29,478</u>	<u>30,231</u>	<u>19,373</u>	<u>7,243</u>	<u>3,615</u>	<u>-</u>	<u>-</u>
With Housing Authority:								
U.S. Agencies - Coupon		7,462	7,438	3,385	2,072	1,981	-	-
U.S. Agencies - Discount		9,485	9,482	9,482	-	-	-	-
Money market mutual funds		574	574	574	-	-	-	-
State Local Agency Investment Fund		13,020	13,020	13,020	-	-	-	-
Subtotal with Housing Authority		<u>30,541</u>	<u>30,514</u>	<u>26,461</u>	<u>2,072</u>	<u>1,981</u>	<u>-</u>	<u>-</u>
With FIRST 5:								
U.S. Treasury Notes		7,325	7,638	3,703	3,935	-	-	-
U.S. Agencies - Coupon		42,315	43,417	17,868	13,722	11,827	-	-
Medium-term corporate notes		12,675	13,437	3,586	6,778	3,073	-	-
Money market funds		696	696	696	-	-	-	-
In commingled pool		9,429	9,429	9,429	-	-	-	-
Subtotal with FIRST 5		<u>72,440</u>	<u>74,617</u>	<u>35,282</u>	<u>24,435</u>	<u>14,900</u>	<u>-</u>	<u>-</u>
Securities Lending Collateral received and invested:								
Money market funds		110,174	110,174	110,174	-	-	-	-
Total investments		<u>\$ 4,446,282</u>	<u>\$ 4,493,153</u>	<u>\$ 2,428,224</u>	<u>\$ 1,597,172</u>	<u>\$ 373,603</u>	<u>\$ 28,567</u>	<u>\$ 65,587</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(3) Cash and Investments (Continued)

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, 2011, the County’s weighted average maturity of its commingled pool is 452 days. The County invested in callable Federal Agency (\$657,769 of the County’s U.S. Agencies coupon position of \$1,554,026) and Corporate Bonds (\$9,993 of the County’s Corporate Bonds position of \$615,020) issues within its commingled pool. These issues are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes. All of the cash collateral received for securities lending is invested in the Money Market Funds with duration of 1 day.

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 issuer’s ability to make these payments will cause security prices to decline. The following is a summary of the credit quality distribution for securities (including securities lent and excluding collateral received and invested) 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:

<u>Investment</u>	<u>Moody's Rating</u>	<u>% of Commingled Pool investments with the Treasury</u>	<u>% of Separate investments with the Treasury</u>	<u>% of investments with fiscal agents</u>	<u>% of investments with Housing Authority</u>	<u>% of investments with FIRST 5</u>
U.S. Treasury	Exempt	1.1%	11.2%	7.9%	0.0%	11.7%
U.S. Agencies	Not rated	2.8%	0.2%	0.0%	31.1%	0.0%
U.S. Agencies	Aaa	37.8%	8.8%	54.0%	24.3%	66.6%
U.S. Agencies - Mortgage backed securities	Not rated	0.0%	16.6%	0.0%	0.0%	0.0%
Asset Backed Securities	Aaa	3.1%	0.0%	0.0%	0.0%	0.0%
Asset Backed Securities	Not rated	0.9%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	Aaa	0.0%	0.3%	0.0%	0.0%	0.0%
Municipal bonds	Aa	0.0%	0.2%	0.0%	0.0%	0.0%
Municipal bonds	Not rated	0.4%	7.5%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	8.9%	1.9%	7.3%	0.0%	2.7%
Medium-term corporate notes	Aa	6.4%	2.8%	4.8%	0.0%	8.3%
Medium-term corporate notes	A	0.3%	7.0%	0.0%	0.0%	9.6%
Medium-term corporate notes	Baa	0.0%	0.7%	0.0%	0.0%	0.0%
Medium-term corporate notes	Not rated	0.0%	0.1%	0.0%	0.0%	0.0%
Commercial paper	P-1	22.6%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aaa	1.3%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa	2.5%	0.0%	0.0%	0.0%	0.0%
Money market mutual funds	Aaa	10.9%	1.1%	26.0%	1.9%	0.0%
Money market mutual funds	Not rated	0.0%	37.9%	0.0%	0.0%	1.1%
State Local Agency Investment Fund	Not rated	1.0%	0.0%	0.0%	42.7%	0.0%
Stock Mutual Fund	Not applicable	0.0%	3.7%	0.0%	0.0%	0.0%
Total Investments		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(3) Cash and Investments (Continued)

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. The total amount recorded by all public agencies in LAIF at June 30, 2011 was approximately \$24.0 billion. Of that amount, 94.99% was invested in non-derivative financial products and 5.01% in structured notes and asset backed securities. 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.

Securities Lending Collateral - Cash collateral received for securities lending is invested in the Dreyfus Institutional Preferred money market fund and is rated AAA and Aaa by S&P and Moody's, respectively.

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% of the County's pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank, which represent 19.0%, 9.3%, and 7.5%, respectively, of the County's pooled investments.

The investment policy of the Housing Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. More than 5% of the Housing Authority's investments are invested with the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank; and Federal Farm Credit Bank, which represent 6.5%, 17.3%, 17.2%, and 14.4%, respectively, of the Housing Authority's investments.

More than 5% of the FIRST 5's investments are invested with the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank, which represent 29.5%, 21.3%, and 15.9%, respectively, of the First 5's investments.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(3) Cash and Investments (Continued)

Securities Lending Activity

State statutes and the County's investment policy permit the use of a securities lending program with its principal custodian bank. On December 5, 2006, the County added Securities Lending Program to its investment policy with the amendment approved by the Board. The loaned securities represent securities on loan to brokers or dealers or other borrowers by the County's investment pool. Borrowers were required to deliver collateral exceeding 102% of the market value of the loaned securities. Borrowers were required to maintain the designated margin percentage of collateral on a daily basis. The Custodian receives any applicable securities lending fees and credits all amounts received to the Collateral Account. If the borrower fails to return the loaned securities, the County's Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the County's Custodian is required to credit the County's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or the borrowers. Lending transactions must also meet the following requirements:

- Loaned securities must be owned and fully paid a minimum of 30 days prior to the transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20 percent of the portfolio's base value.
- The term of securities lending agreement is not to exceed 92 days.
- Funds obtained through a securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the securities lending agreement.

The loaned securities, as of June 30, 2011, consisted of U.S. government agency securities and U.S. Treasury notes. In return, the County receives collateral in the form of cash equal to at least 102% of the transferred securities plus accrued interest for reinvestment. The County authorized Bank of New York Mellon Corporation (BONY), the County's Custodian, to invest only in Approved Investments, such as U.S. Treasury and Government Agency bills, notes or bonds, repurchase agreements with primary dealers or financial institutions, negotiable Certificates of Deposits, commercial paper, medium term corporate notes or deposit notes, and money market funds no more than 20% of the Treasury's funds. Depending on the type of securities, there are restrictions in amount and time imposed by the County. All of the County's collaterals were invested in money market funds, with a weighted average maturity of one day as of June 30, 2011. The County does not match the maturities of investments made with cash collateral with the securities on loan. As of June 30, 2011, the underlying securities loaned by the County's investment pool approximated to \$107.6 million. The cash collateral provided by the counterparty was \$110.2 million, or 102% of the fair value of the securities lent, and was invested in the Dreyfus Institutional Preferred money market fund. The cash collateral provided met the 102% collateralization policy as of June 30, 2011. The County has no exposure to credit risk related to securities lending transactions as of June 30, 2011 because the market value of the invested cash collateral exceeds that of the borrowed securities.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(3) Cash and Investments (Continued)

(f) Condensed Financial Information

In lieu of separately issued financial statements for the external pool, condensed financial information is presented below as of and for the year ended June 30, 2011:

Assets:	
U.S. Treasury Notes	\$ 79,626
U.S. Agencies - Coupon	1,581,816
U.S. Agencies - Discount	49,983
U.S. Agencies - Mortgage backed securities	51,035
Medium-term corporate notes	653,135
Asset Backed Securities	157,891
Municipal bonds	40,752
Commercial paper	890,702
Negotiable Certificates of Deposit	150,063
Money market mutual fund	550,453
State Local Agency Investment Fund	40,063
Stock mutual funds	11,527
Total investments	<u>4,257,046</u>
Other assets (Interest receivable)	<u>5,567</u>
Total assets	<u><u>\$ 4,262,613</u></u>
Net Assets:	
Equity of internal pool participants	\$ 1,494,079
Equity of individual investment accounts	149,043
Equity of external pool participants	<u>2,619,491</u>
Total net assets	<u><u>\$ 4,262,613</u></u>
Statement of Changes in Net Assets	
Net assets at July 1, 2010	\$ 3,921,167
Net change in investments by pool participants	<u>341,446</u>
Net assets at June 30, 2011	<u><u>\$ 4,262,613</u></u>
Net assets composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 2,624,202
Undistributed and unrealized loss	<u>(4,711)</u>
Net assets at June 30, 2011	<u><u>\$ 2,619,491</u></u>
Participants net asset value at fair value price per share (\$2,619,491 divided by 2,624,202 units)	
	<u><u>\$ 0.9982</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(4) Receivables

Receivables at year-end for 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	\$ 114,243	\$ -	\$ -	\$ 114,243
Loans receivable	-	41,360	-	41,360
Other	155,117	1,816	7,942	164,875
Gross receivables	269,360	43,176	7,942	320,478
Less: allowance for uncollectibles	(138,508)	(275)	-	(138,783)
Total receivables, net	\$ 130,852	\$ 42,901	\$ 7,942	\$ 181,695

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	\$ 585,640	\$ -	\$ 585,640
Other	1,419	96	1,515
Gross receivables	587,059	96	587,155
Less allowance for uncollectibles	(475,433)	-	(475,433)
Total receivables, net	\$ 111,626	\$ 96	\$ 111,722

Loan receivables from housing programs in the amount of \$41,360 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, 2011, 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	\$ 122,450	\$ -
Other receivables	1,552	1,158
Other miscellaneous assets including cash deposits	-	19,988
Nonmajor governmental funds:		
Due from other governmental agencies	6,360	82
Other receivables	41,108	42
Other miscellaneous assets including cash deposits	-	1,161
Total governmental activities	\$ 171,470	\$ 22,431
Business-type activities:		
SCVMC	\$ -	\$ 3,678
Nonmajor enterprise funds	-	89
Total business-type activities	\$ -	\$ 3,767

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(4) Receivables (Continued)

The “unavailable” due from other governmental agencies includes the following significant receivables:

Milpitas Redevelopment Agency Elmwood Sale

In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement to purchase and sell 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		Milpitas Redevelopment Agency		Total
	Negotiated Value	Other	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 prior to June 30, 2010	(57,750)	(419)	(48,000)	-	(106,169)
Receivable at June 30, 2010	-	-	67,000	28,000	95,000
Less amount received during current year	-	-	(4,000)	-	(4,000)
Receivable at June 30, 2011	\$ -	\$ -	\$ 63,000	\$ 28,000	\$ 91,000

At June 30, 2011, the County’s General Fund receivable balance of \$91,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2011, the County recognized proceeds from the sale in the amount of \$4,000 as revenue in its General Fund. At June 30, 2011, the deferred revenue balance related to this balance is \$91,000.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(4) Receivables (Continued)

San Jose Redevelopment Agency

In 1983, the County and the San Jose Redevelopment Agency (Agency) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (County Pass-Through Payment). In December 1993, the Agency, County, and City of San Jose entered into a Settlement Agreement, which continued the County Pass-Through Payment and in May 2001, the County, City of San Jose, and Agency approved an Amended and Restated Agreement (Amended Agreement).

In September 2009, the Agency informed the County that due to the State's Supplemental Educational Revenue Augmentation Funds (SERAF) requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 County Pass-Through Payment. The Agency further informed the County that it has held funds for the fiscal year 2008-2009 County Pass-Through Payments pending negotiations regarding the payment. At June 30, 2010, the County has recorded a receivable from the Agency in the amount of \$45.2 million, which included the fiscal years 2008-2009 and 2009-10 County Pass-Through Payments, accumulated interest and other administration fees.

In March 2011, a settlement agreement was reached and entered into between the County, Agency, City of San Jose and its related party in which the Agency: (1) paid the County \$26.5 million during fiscal year 2010-2011; (2) transferred title to the former San Jose City Hall (valued at \$8.6 million) to the County on June 30, 2011; and agreed to pay the remaining \$23.78 million in five equal annual installments no later than June 30 of 2014, 2015, 2016, 2017, and 2018. Under the modified accrual basis of accounting, the unavailable revenues in the amount of \$23.78 million should be deferred in governmental fund financial statements until the revenues are available to the County. In the government-wide financial statements, the revenues were recognized in the fiscal years for which they were earned.

Borrowing of Property Tax Revenue (Prop 1A)

Proposition 1A was passed by the voters in 2004 to protect the property tax of local governments. Under Proposition 1A, the State is only allowed to borrow an amount up to 8% of local governments' prior year property tax allocations on the condition that the State will pay back the loan within three years and with interest. Proposition 1A also provides that the State cannot engage in such borrowing for more than two fiscal years during any 10-year period, and cannot borrow a second time unless the State has fully repaid the prior loan. The legislation includes two repayment options. The first option involves the establishment of a joint powers authority, which will issue bonds and use the proceeds to provide governments with funds to replace the borrowed property taxes. The State will pay for bond issuance and an interest of up to 8%. The second option is aimed at local governments that prefer to be repaid by the State directly at an interest rate determined by the California Department of Finance.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(4) Receivables (Continued)

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (California Communities), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. Most of the County’s funds participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The amount of this borrowing pertaining to the County (excluding the Santa Clara County Central Fire Protection District, the Los Altos Hills County Fire District and the Santa Clara County Library) was \$45.4 million. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

The Santa Clara County Central Fire Protection District, the Los Altos Hills County Fire District and the Santa Clara County Library did not participate in the California Communities Proposition 1A Securitization Program and the total amount borrowed from these funds was \$6.4 million. This borrowing by the State was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenues in the governmental fund financial statements until the tax revenues are received from the State (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2011, 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	\$ 5,679
General Fund	Internal Service Funds	1,082
General Fund	Nonmajor Governmental Funds	9,899
Nonmajor Governmental Funds	General Fund	167
Nonmajor Governmental Funds	Nonmajor Governmental Funds	8,595
Nonmajor Governmental Funds	SCVMC	11
Nonmajor Governmental Funds	Internal Service Funds	85
SCVMC	General Fund	2,800
SCVMC	Nonmajor Governmental Funds	4,455
Total		<u>\$ 32,773</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(5) Interfund Transactions (Continued)

The General Fund is due \$9,899 from Nonmajor Governmental Funds to reimburse it for services rendered on the Mental Health Service Act program. In addition, the SCVMC is due \$4,455 from the Nonmajor Governmental Funds for debt service payment reimbursements while the General Fund is due \$5,679 from the SCVMC to reimburse the fund for services provided for mental health and community health services. The Nonmajor Governmental Funds are due \$8,595 from other Nonmajor Governmental Funds to reimburse costs incurred for capital projects funded with Qualified Energy Conservation Bonds.

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.

Advance from/to other funds:

In December 2009, the Board approved an interfund loan for the purchase of the former San Jose Medical Center in the amount of \$24,040. The loan is structured as a single loan with an interest rate commensurate with the interest that would have otherwise been earned by the Retiree Healthcare Internal Service Fund had it invested these funds. The terms of the loan include a maturity of December 31, 2015 and interest at 2.84% per annum. Interest on the loan is payable annually on December 31st of each year commencing on December 31, 2010. During the year ended June 30, 2011, the General Capital Improvement Fund repaid \$8,000 on this advance and as of June 20, 2011, the loan balance is \$16,040.

Transfer in/out between funds:

During the fiscal year ended June 30, 2011, the County's governmental activities funded from the General Capital Improvement Fund transferred the accumulated costs in the amount of \$1,813 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 amounts did not involve the transfer of financial resources and are reported as capital contributions transferred in from other County funds in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(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	\$ 96,618	Transfer funds for operating subsidy.
General Fund	SCVMC	4,541	Transfer RDA Delegated funds towards the VMC Seismic Project.
General Fund	SCVMC	7,687	Transfer funds from the fairground settlement and other delegated funds to fund SCVMC capital projects.
General Fund	Nonmajor Enterprise Funds	11	Transfer funds to cover rent for Animal Rescue Clinic.
SCVMC	General Fund	1,937	Transfer funds to return operating subsidy.
SCVMC	General Fund	586	Transfer funds to reimburse cost incurred related to the purchase of the Downtown San Jose hospital.
SCVMC	General Fund	3,068	Transfer funds to reimburse services rendered from the Community Health Service and the Mental Health Departments.
SCVMC	General Fund	3,361	Transfer funds to allocate the Mental Health Department's share of revenue for services provided at the clinics.
SCVMC	Nonmajor Governmental funds	4,541	Transfer funds to the General Capital Improvement fund towards the VMC Seismic Project.
SCVMC	Nonmajor Governmental funds	7,553	Transfer bond proceeds to General Capital Improvement fund for Valley Specialty Center and Valley Health Center projects.
Nonmajor Governmental Funds	SCVMC	14	Transfer funds to pay for 1998 Series A and 2010 Series N debt service expense.
Subtotal Between Governmental and Business-type Activities:		<u>129,917</u>	

Between Funds within the Governmental or Business-type Activities*:

General Fund	Nonmajor Governmental funds	112	Transfer funds to the Roads fund for school crossing guard program.
		51	Transfer funds to the County Library fund towards annual contribution per Joint Power Authority agreement.
		172	Transfer funds for the Integrated Waste Management program
		845	Transfer funds to pay debt service for Hospital Facilities Authority Bonds.
		10,343	Transfer funds to finance various Facilities and Fleet Department capital projects.
		35,260	Transfer funds to Facilities and Fleet Department to return the Retiree Healthcare advance.
		798	Transfer funds to the Roads fund for Measure B Transportation Improvement Program projects.
		109	Transfer funds to the Tobacco Securitization Corporation for operations.
		<u>47,690</u>	
Nonmajor Governmental funds	General Fund	144	Transfer funds from the Vital Statistics fund for specified ongoing operations.
		25,342	Return funds to the General Fund for County's other operation use.
		47	Transfer funds to refund 1998 Series A bonds and issue 2010 Series N bonds.
		36,802	Transfer to the General Fund to cover expenses for State and Federal child support enforcement activities.
		297	Transfer funds to pay contract services for a 10 year plan to address chronic homelessness in the County.
		13	Return funds to the General Fund for the Affordable Housing program operations.
		50,831	Transfer funds from the Proposition 63 fund for planning, administrative and program costs for the mental health services programs.
		3,800	Transfer funds to the General Fund to pay various debt service.
		<u>117,276</u>	
Nonmajor Governmental funds	Nonmajor Governmental funds	385	Return unspent funds to the Vector Control Department for modifications to the new Vector Control Building.
		1,186	Transfer funds to Parks Department for Parks Capital Projects.
		9,559	Transfer bond proceeds to the General Capital Improvement fund for Qualified Energy Conservation program and other projects.
		<u>11,130</u>	
Internal Service Funds	Nonmajor Governmental funds	500	Transfer funds from the Fleet Management to fund the Fleet Maintenance Facility Renovation Project.
Total Between Funds within Governmental or Business-type Activities:		<u>176,596</u>	
Total Transfers:		<u>\$ 306,513</u>	

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance, July 1, 2010	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2011
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 241,703	\$ 9,895	\$ (270)	\$ -	\$ 251,328
Construction in progress	155,689	57,819	-	(104,542)	108,966
Total capital assets, not being depreciated	<u>397,392</u>	<u>67,714</u>	<u>(270)</u>	<u>(104,542)</u>	<u>360,294</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	255,240	-	-	16,504	271,744
Buildings and improvements	819,633	19	-	68,968	888,620
Equipment, software and vehicles	162,919	9,478	(6,180)	17,257	183,474
Total capital assets, being depreciated	<u>1,237,792</u>	<u>9,497</u>	<u>(6,180)</u>	<u>102,729</u>	<u>1,343,838</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(85,195)	(10,368)	-	-	(95,563)
Buildings and improvements	(394,925)	(13,247)	-	-	(408,172)
Equipment, software and vehicles	(119,404)	(16,042)	5,756	-	(129,690)
Total accumulated depreciation	<u>(599,524)</u>	<u>(39,657)</u>	<u>5,756</u>	<u>-</u>	<u>(633,425)</u>
Total capital assets, being depreciated, net	<u>638,268</u>	<u>(30,160)</u>	<u>(424)</u>	<u>102,729</u>	<u>710,413</u>
Governmental activities, capital assets, net	<u>\$ 1,035,660</u>	<u>\$ 37,554</u>	<u>\$ (694)</u>	<u>\$ (1,813)</u>	<u>\$ 1,070,707</u>
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	234,771	100,715	-	(82,659)	252,827
Total capital assets, not being depreciated	<u>241,081</u>	<u>100,715</u>	<u>-</u>	<u>(82,659)</u>	<u>259,137</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	687,883	38	(1,060)	74,095	760,956
Equipment and vehicles	89,366	-	(4,686)	10,377	95,057
Leasehold improvements	2,073	-	-	-	2,073
Total capital assets, being depreciated	<u>779,322</u>	<u>38</u>	<u>(5,746)</u>	<u>84,472</u>	<u>858,086</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(258,153)	(29,964)	1,037	-	(287,080)
Equipment and vehicles	(59,809)	(8,303)	4,193	-	(63,919)
Leasehold improvements	(1,399)	(104)	-	-	(1,503)
Total accumulated depreciation	<u>(319,361)</u>	<u>(38,371)</u>	<u>5,230</u>	<u>-</u>	<u>(352,502)</u>
Total capital assets, being depreciated, net	<u>459,961</u>	<u>(38,333)</u>	<u>(516)</u>	<u>84,472</u>	<u>505,584</u>
Business-type activities, capital assets, net	<u>\$ 701,042</u>	<u>\$ 62,382</u>	<u>\$ (516)</u>	<u>\$ 1,813</u>	<u>\$ 764,721</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2011 was as follows:

	Balance, July 1, 2010	Additions	Reductions/ Adjustments	Balance, June 30, 2011
<i>Capital assets, not being depreciated:</i>				
Land	\$ 17,229	\$ -	\$ -	\$ 17,229
Construction in progress	5,429	554	(4,275)	1,708
Total capital assets, not being depreciated	<u>22,658</u>	<u>554</u>	<u>(4,275)</u>	<u>18,937</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	33,156	31	(17,551)	15,636
Furniture and equipment	3,595	76	(488)	3,183
Total capital assets, being depreciated	<u>36,751</u>	<u>107</u>	<u>(18,039)</u>	<u>18,819</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(13,994)	(764)	10,009	(4,749)
Furniture and equipment	(3,132)	(315)	486	(2,961)
Total accumulated depreciation	<u>(17,126)</u>	<u>(1,079)</u>	<u>10,495</u>	<u>(7,710)</u>
Total capital assets, being depreciated, net	<u>19,625</u>	<u>(972)</u>	<u>(7,544)</u>	<u>11,109</u>
Housing Authority's business-type activity	<u>\$ 42,283</u>	<u>\$ (418)</u>	<u>\$ (11,819)</u>	30,046
Housing Authority's discrete component units' capital assets, as of December 31, 2010, except for Poco Way Associates which is as of May 31, 2011				<u>351,738</u>
Housing Authority capital assets, net				<u>\$ 381,784</u>

A copy of each of the Housing Authority's component units' separately issued audited financial statements can be obtained from the Housing Authority's management.

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2011 was as follows:

	Balance, July 1, 2010	Additions	Reductions/ Adjustments	Balance, June 30, 2011
<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	4,265	-	-	4,265
Furniture and equipment	271	6	-	277
Total capital assets, being depreciated	<u>4,536</u>	<u>6</u>	<u>-</u>	<u>4,542</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(1,047)	(213)	-	(1,260)
Furniture and equipment	(265)	(1)	-	(266)
Total accumulated depreciation	<u>(1,312)</u>	<u>(214)</u>	<u>-</u>	<u>(1,526)</u>
Total capital assets, being depreciated, net	<u>3,224</u>	<u>(208)</u>	<u>-</u>	<u>3,016</u>
FIRST 5 capital assets, net	<u>\$ 5,582</u>	<u>\$ (208)</u>	<u>\$ -</u>	<u>\$ 5,374</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(6) Capital Assets (Continued)

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2011 as follows:

General government	\$ 18,834
Public protection	4,194
Public ways	9,852
Health and sanitation	478
Public assistance	808
Education	1,029
Recreation	847
Amount reported in the internal service funds	3,615
Total depreciation expense - governmental functions	<u><u>\$ 39,657</u></u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2011 as follows:

SCVMC	\$ 37,380
Airport	960
Sanitation District	31
Total depreciation expense - business-type functions	<u><u>\$ 38,371</u></u>

Capital Projects Commitments

As of June 30, 2011, the SCVMC and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings; Ambulatory Electronic Medical Record System; Siemens Capital Patient Management System; Cardiac Monitoring System; and infrastructure and facility improvement of Reid Hillview Airport and South County Airport projects.

The County's commitments for business-type activities as of June 30, 2011 are as follows:

<u>Projects</u>	<u>Expended to June 30, 2011</u>	<u>Committed as of June 30, 2011</u>
Hospital Projects:		
Seismic Safety	\$ 174,299	\$ 129,134
Renovations and equipment	77,647	14,970
Airport Projects	<u>881</u>	<u>200</u>
Total	<u><u>\$ 252,827</u></u>	<u><u>\$ 144,304</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (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, 2011. 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; and the continued comprehensive study, planning, and improvement of the County's expressways.
- Parks projects include Almaden Quicksilver County Park toxic mitigation; Santa Teresa County Park and Coyote Lake County Park Development Projects; Alviso Boat Launch Project; Madrone Landfill; Casa Grande Restoration; and improvement of County Parks' facilities.
- General Capital projects include the Solar Photovoltaic Project; Court Seismic Upgrade Program; 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; the upgrade of County buildings' security system; and the demolition and abatement of the former San Jose Medical Clinic in downtown area.

The County's governmental activities commitments at June 30, 2011 are as follows:

<u>Projects</u>	<u>Expended to June 30, 2011</u>	<u>Committed as of June 30, 2011</u>
Road projects	\$ 21,927	\$ 6,106
Park projects	16,073	5,226
General capital projects	<u>70,966</u>	<u>18,978</u>
Total	<u>\$ 108,966</u>	<u>\$ 30,310</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(7) Capital Leases

The County leases certain vehicles and equipment, obtained under various lease financing agreements. The leases expire at various times through the fiscal year 2016. As of June 30, 2011, governmental activities' capital assets and accumulated depreciation under capital leases are as follows:

Description		
Equipment and vehicles	\$	727
Less accumulated depreciation		(43)
Net capital assets	\$	<u>684</u>

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

<u>Fiscal year ending June 30,</u>		
2012	\$	150
2013		150
2014		150
2015		37
2016		<u>2</u>
Total		489
Amount representing interest at rates from 0.08% to 8.36%		<u>(30)</u>
Present value of future minimum lease payments	\$	<u>459</u>

(8) Short-Term Debt

(a) Teeter Plan Obligation Commercial Paper Notes

As discussed in Note 1(j), in 1994 the Board adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll (exclusive of the supplemental roll) taxes are distributed to participating taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. Taxing entities that maintain funds in the County Treasury are included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan (City of Sunnyvale and Town of Los Gatos) are paid as taxes are collected.

On September 16, 2010, the County issued \$111,240 in Teeter Plan Obligation Commercial Paper Notes Series A and interest rates from 0.26% to 0.30%. These notes had maturity dates of October 6, 2010 through June 23, 2011.

On June 23, 2011, the County issued \$119,820 in Teeter Plan Obligation Commercial Paper Notes Series A with maturity dates ranging from October 3, 2011 through December 7, 2011 and interest rates from 0.17% to 0.21%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(8) Short-Term Debt (Continued)

These notes were issued under the authority of Section 4701, *et seq.* of the California Revenue and Taxation Code and the Trust Agreement dated September 1, 2010 as supplemented by the First Supplement to the Trust Agreement dated June 1, 2011 by and between the County and U.S. Bank National Association. These notes are authorized to be issued from time to time to finance and refinance the County's obligation to make distributions of certain uncollected property tax levies and pay the cost of issuance for the notes. These notes will mature not more than 270 days after their respective date of issuance provided that no notes may have a maturity date later than the date which is five days prior to the expiration date of the Letter of Credit.

These notes are payable from the County's General Fund. The County has also pledged the Series A Taxes to the payment of these notes; however, all payments on these notes will be made by draws on the Letter of Credit. The payments of principal and interest, if any, on these notes are supported by an irrevocable direct pay letter of credit issued by J.P. Morgan. The letter of credit will expire on September 16, 2013 unless extended or earlier terminated.

(b) Housing Authority Line of Credit

The Housing Authority maintains a \$5,000 line of credit, which provides the Housing Authority with a ready means of short-term financing. In November 2010, the Housing Authority agreed to grant the bank a security interest in its money market account maintained at the bank and extended the maturity date to September 16, 2016. The line of credit bears interest at a rate of prime rate minus 0.5% and is at 3.25% at June 30, 2011, which is payable monthly.

(c) Short-Term Debt Activity

	<u>Primary Government</u>	<u>Component Units</u>
Balance, beginning of year	\$ -	\$ 4,759
Additions	231,060	1,159
Reductions	<u>(111,240)</u>	<u>(4,259)</u>
Balance, end of year	<u>\$ 119,820</u>	<u>\$ 1,659</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities

As of June 30, 2011, outstanding long-term obligations consisted of the following:

Type of indebtedness (purpose)	Final Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Governmental activities:					
Taxable Pension Funding Bonds	8/1/11 - 8/1/36	5.55 - 6.11%	\$2,990 - \$51,560	\$ 389,485	\$ 386,025
2009 A General Obligation Bonds	8/1/11 - 8/1/39	2.00% - 5.00%	\$1,000 - \$32,500	350,000	334,900
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A & B	8/1/11 - 8/1/15	(1)	\$845 - \$8,000	19,205	12,495
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/11 - (2)	(3)	\$116 - \$262	2,060	858
1997 Lease Revenue Bonds Series A	11/15/12 - 11/15/13	5.75% - 6.00%	\$1,513 - \$1,632	16,649	3,145
2003 Lease Revenue Bonds Series C	5/15/12 - 5/15/23	3.75% - 5.00%	\$1,010 - \$1,645	20,025	15,460
2006 Lease Revenue Bonds Series I	5/15/12 - 5/15/31	4.00% - 5.00%	\$2,622 - \$5,927	87,575	80,732
2007 Lease Revenue Bonds Series K	5/15/12 - 5/15/37	4.00% - 5.00%	\$465 - \$1,460	22,655	22,210
2008 Lease Revenue Bonds Series A	11/15/11 - 11/15/22	3.00% - 5.00%	\$161 - \$1,364	5,579	3,142
2008 Lease Revenue Bonds Series L	5/15/12 - 5/15/36	4.00% - 5.25%	\$1,060 - \$4,445	59,800	56,750
2010 Lease Revenue Bonds Series N	5/15/12 - 5/15/17	4.00% - 5.00%	\$5,135 - \$10,047	47,188	37,961
2011 Lease Revenue Bonds Series A	8/1/11 - 2/1/26	5.90%	\$871 - \$2,153	20,368	20,368
Housing Authority:					
2004 Lease Revenue Bonds Series A	9/1/11 - 9/1/29	(4)	\$90 - \$255	3,550	3,110
2006 Lease Revenue Bonds	9/1/11 - 9/1/38	5.00%	\$55 - \$510	5,125	4,975
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
2006 Vector Control COP Series TT	6/1/12 - 6/1/27	3.75 - 6.50%	\$170 - \$330	4,495	3,800
Total governmental activities				<u>\$ 1,155,789</u>	<u>\$ 1,087,961</u>
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A&B	8/1/11 - 8/1/15	(1)	\$4,455 - \$5,525	\$ 55,795	\$ 20,405
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/11 - (2)	(3)	\$7,924 - \$18,200	256,435	58,682
1997 Lease Revenue Bonds Series A	11/15/11 - 11/15/13	5.75% - 6.00%	\$10,057 - \$10,633	171,756	20,690
2006 Lease Revenue Bonds Series I	5/15/12 - 5/15/31	4.00% - 5.00%	\$1,838 - \$4,153	62,165	56,568
2007 Lease Revenue Bonds Series K	5/15/12 - 5/15/37	4.00% - 5.00%	\$1,450 - \$4,565	70,885	69,490
2008 Lease Revenue Bonds Series A	11/15/11 - 11/15/22	3.00% - 5.00%	\$1,076 - \$15,657	120,831	118,578
2008 Lease Revenue Bonds Series L	5/15/12 - 5/15/36	4.00% - 5.25%	\$9,530 - \$11,750	53,040	53,040
2008 Lease Revenue Bonds Series M	5/15/12 - 5/15/35	(5)	\$3,950 - \$8,300	143,105	142,050
2010 Lease Revenue Bonds Series N	5/15/2012	4.24%	\$1,504	2,922	1,504
Total SCVMC				<u>936,934</u>	<u>541,007</u>
Airport:					
ABAG Lease Revenue Bonds Series 2002-1	7/1/11 - 7/1/32	4.00 - 5.00%	\$170 - \$355	6,780	5,135
Total business-type activities				<u>\$ 943,714</u>	<u>\$ 546,142</u>

(1) Variable rate, 0.07% effective as of June 30, 2011.

(2) Series A: 11/15/11 and Series B: 11/15/25.

(3) Series A: Fixed rate of 7.75% and Series B: Variable rate, 0.07% effective as of June 30, 2011.

(4) Variable rate, 0.08% effective as of June 30, 2011.

(5) Variable rate, 0.05% effective as of June 30, 2011.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2011:

	Balance, July 1, 2010	Additions	Retirements	Balance, June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 257,295	\$ 20,368	\$ (16,457)	\$ 261,206	\$ 17,674
Unamortized premium	6,836	-	(696)	6,140	696
Unamortized deferred loss on refunding	(3,180)	-	371	(2,809)	(371)
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	22,545	7,454	-	29,999	-
Pension Funding Bonds	388,045	-	(2,020)	386,025	2,990
Accreted interest on capital appreciation bonds	16,850	6,346	-	23,196	-
Certificates of Participation	3,965	-	(165)	3,800	170
Unamortized premium	145	-	(9)	136	9
General Obligation Bonds	350,000	-	(15,100)	334,900	18,100
Unamortized premium	11,754	-	(419)	11,335	419
Subtotal governmental bonds	<u>1,156,285</u>	<u>34,168</u>	<u>(34,495)</u>	<u>1,155,958</u>	<u>39,687</u>
Capital Lease Obligations (Note 7)	278	520	(339)	459	136
Accrued litigation liability	2,500	-	-	2,500	-
Insurance claims (Note 13)	109,964	73,174	(67,815)	115,323	36,903
Net other postemployment benefits obligation (Notes 12(e) and 12(f))	61,560	92,820	-	154,380	-
Accrued vacation & sick leave	129,905	94,885	(96,219)	128,571	10,843
Total governmental activities	<u>\$ 1,460,492</u>	<u>\$ 295,567</u>	<u>\$ (198,868)</u>	<u>\$ 1,557,191</u>	<u>\$ 87,569</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 562,479	\$ -	\$ (21,472)	\$ 541,007	\$ 22,196
Unamortized discount	(387)	-	172	(215)	(109)
Unamortized premium	12,278	-	(976)	11,302	894
Unamortized deferred loss on refunding	(19,641)	-	1,869	(17,772)	(1,852)
Subtotal SCVMC bonds	<u>554,729</u>	<u>-</u>	<u>(20,407)</u>	<u>534,322</u>	<u>21,129</u>
Airport Lease Revenue Bonds	5,295	-	(160)	5,135	170
Unamortized discount	(18)	-	1	(17)	(1)
Subtotal Airport bonds	<u>5,277</u>	<u>-</u>	<u>(159)</u>	<u>5,118</u>	<u>169</u>
Accrued vacation & sick leave	65,596	59,211	(59,379)	65,428	10,381
Total business-type activities	<u>\$ 625,602</u>	<u>\$ 59,211</u>	<u>\$ (79,945)</u>	<u>\$ 604,868</u>	<u>\$ 31,679</u>
Component Units:					
<i>Housing Authority:</i>					
Notes payable	\$ 2,978	\$ -	\$ (1,575)	\$ 1,403	\$ 3
Payment in lieu of taxes	2,231	-	(395)	1,836	1,836
Accrued vacation & sick leave	1,059	1,388	(1,459)	988	353
Long-term interest payable	509	23	-	532	-
Housing Authority's business type activity	<u>\$ 6,777</u>	<u>\$ 1,411</u>	<u>\$ (3,429)</u>	<u>4,759</u>	<u>2,192</u>
Housing Authority's discrete component units' long-term obligations as of December 31, 2010, except for Poco Way Associates which is as of May 31, 2011				241,267	2,746
Notes, loans, and bonds payable				18,535	-
Long-term interest payable				259,802	2,746
Housing Authority's discrete component units				<u>\$ 264,561</u>	<u>\$ 4,938</u>
Total Housing Authority					
<i>FIRST 5:</i>					
Accrued vacation & sick leave	<u>\$ 192</u>	<u>\$ -</u>	<u>\$ (5)</u>	<u>\$ 187</u>	<u>\$ -</u>

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

(a) *Governmental Activities*

2007 Taxable Pension Funding Bonds

In July 2007, the County issued 2007 Taxable Pension Funding Bonds in the amount of \$389,485 to refinance a portion of the County's statutory obligations to make payments to the State of California Public Employees' Retirement System (PERS) for certain amounts arising as a result of retirement benefits accruing to County employees. The bonds were comprised of current interest bonds and capital appreciation bonds. The current interest bonds were issued for \$302,180 and bear fixed interest rates ranging from 5.55% to 6.11%, and have a final maturity date of August 1, 2036. The capital appreciation bonds were issued for \$87,305 with interest rates ranging from 5.74% to 6.14% and have a final maturity date of August 1, 2029.

2009 General Obligation Bonds Series A

On November 4, 2008, the County voters approved Measure A – Hospital Seismic Safety and Medical Facilities authorizing the issuance of \$840,000 in general obligation bonds to rebuild and improve the seismically deficient medical facilities.

On May 27, 2009, the County issued 2009 General Obligation Bonds Series A (2009 GO Bonds) in the amount of \$350,000. The 2009 GO Bonds bear fixed interest rates ranging from 2.00% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039.

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 Hospital Facilities 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, Patient Care Tower, Psychiatric Inpatient Facility, and 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

In connection with the issuance of the 1985 ACES Lease Revenue Bonds, the Hospital Facilities Authority obtained an irrevocable letter of credit as a credit facility with State Street Bank and Trust Company. At June 30, 2011, the letter of credit was set to expire on July 1, 2013. The Hospital Facilities Authority's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to 12% per annum with the principal due at July 1, 2013. The Authority is required to pay State Street Bank and Trust Company an annual commitment fee of 0.45% based on the outstanding principal amount of the bonds supported by the credit facility. The letter of credit is reduced pro rata as principal payments are made. The amount of the irrevocable letter of credit agreement, as of June 30, 2011 was approximately \$33,495.

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 blended component units 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 the 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, County, nor Corporation has any liability to make up any such shortfall.

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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

2003 Lease Revenue Bonds Series C - On December 18, 2003, the County through the Financing Authority issued 2003 Series C Lease Revenue Bonds in the amount of \$20,025. 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.

2010 Lease Revenue Bonds Series N - On February 18, 2010, the Financing Authority issued \$50,110 of 2010 Series N Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds including premiums of \$4,264 were used to current refund the outstanding 1998 Series A and 2000 Series B Lease Revenue Bonds. The 2010 Series N bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2017.

2011 Series A Qualified Energy Conservation Bonds - On February 10, 2011, the County through the Financing Authority, issued a taxable Lease Revenue Bond, 2011 Series A Qualified Energy Conservation Bond (QECCB), in the amount of \$20,368 pursuant to an allocation to the County by the California Debt Limit Allocation Committee. The issuance is to finance acquisition, installation, implementation and construction of solar electric generation systems on four County sites, cost of issuance and related fees and expenses. The QECCB enables the County to receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The federal subsidy equates to approximately 70% of the interest cost of the financing.

The debt is an obligation of the General Fund and the actual savings will depend on the actual reduction in future utility cost as a result of the solar panel project.

Housing Authority Lease Revenue Bonds - 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) in fiscal year 2005. 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. 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 Housing Authority has reported its lease obligations to the County as payable to primary government on its statement of net assets.

In connection with the issuance of the 2004 Series A Lease Revenue Bonds, the County obtained an irrevocable letter of credit as a credit facility with U.S. Bank N.A. for these bonds. At June 30, 2011, the letter of credit was set to expire on September 1, 2012. The County's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to LIBOR plus 4% per annum with the principal due at September 1, 2012. The County is required to pay U.S. Bank N.A. an annual commitment fee of 1.50% effective September 1, 2009 based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2011, the Housing Authority paid an annual commitment fee in the amount of \$48.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The Business-type Activities section of this note at (b) describes the governmental activities' portions of the Financing Authority's 1994, 1997, 2006, 2007 and 2008 Lease Revenue Bonds.

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 Certificates of Participations bear fixed interest rates ranging from 3.75% to 6.50% and have a final maturity date of June 1, 2027.

(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

1994 Lease Revenue Bonds Series A & B - 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 to 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.

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, 2004. The 1994 Series A bonds are covered by indemnity insurance. 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 Series B bonds, issued for \$51,500, bear interest at variable rates set daily, weekly, semi-annually, 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. The 1994 Series B bonds are secured by an irrevocable letter of credit (credit facility) pursuant to a Standby Bond Purchase Agreement with JP Morgan Chase Bank N.A. dated November 1, 2000. At June 30, 2011, the irrevocable letter of credit amount is \$52,126 and the expiration date is November 1, 2011. The Financing Authority's repayment of unreimbursed draws made on the credit facility bear interest at rates as defined in the Standby Bond Purchase Agreement up to 12% per annum with the principal due at November 1, 2011. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 0.30% based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2011 paid an annual commitment fee in the amount of \$159. On September 14, 2011, the Financing Authority extended the letter of credit with JP Morgan Chase Bank N.A. and the new expiration date is November 1, 2013.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

1997 Lease Revenue Bonds Series A and 2008 Lease Revenue Bonds Series A - 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. Debt payments on the 1997 Series A are insured by a municipal bond insurance policy issued by AMBAC Assurance Corporation. On February 14, 2008, the Financing Authority issued \$126,410 of 2008 Series A Lease Revenue Bonds on behalf of the County and SCVMC to current refund a portion of outstanding 1997 Series A Lease Revenue Bonds. 2008 Series A bonds net proceeds and amounts available from the refunded bonds were used to establish a refunding escrow on the date of the issuance of the 2008 Series A bonds. The 1997 Series A bonds in the amount of \$131,415 were redeemed on March 17, 2008 and have been removed from the County's basic financial statements. The 2008 A bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of November 15, 2022.

2006 Lease Revenue Bonds Series I - On March 2, 2006, the County through the Financing Authority issued Lease Revenue Bonds 2006 Series I in the amount of \$149,740. The bonds were issued to finance the construction costs of the County Crime Laboratory Facility; the Valley Health Clinics at Fair Oaks and Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The 2006 Series I bonds, bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2031.

2007 Lease Revenue Bonds Series K - On August 15, 2007, the Financing Authority issued \$93,540 of 2007 Series K Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds were 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 Series K bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2037.

2008 Lease Revenue Bonds Series L - On May 22, 2008, the Financing Authority issued \$112,840 of 2008 Series L Lease Revenue Bonds on behalf of the County and SCVMC to refund the County's outstanding 2003 Series D and 2005 Series H, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. The 2008 L bonds bear fixed interest rates ranging from 4.00% to 5.25% and have a final maturity date of May 15, 2036.

2008 Lease Revenue Bonds Series M - On May 29, 2008, the Financing Authority issued \$143,105 of 2008 Series M Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds were used to refund the outstanding 2005 Series F and 2005 Series G Lease Revenue Bonds on June 4, 2008. The 2008 Series M bonds initially bear variable interest based on the weekly interest rate as defined in the bond indenture and have a final maturity date of May 15, 2035.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

In connection with the issuance of the 2008 Series M Lease Revenue Bonds, the Financing Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. The letter of credit is set to expire on October 31, 2012. If Bank of America, N.A. elects not to extend the expiration date, the variable rate bonds would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an annual commitment fee of 1.00% based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2011 paid an annual commitment fee in the amount of \$736.

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

In May 2005, the County through the Financing Authority issued 2005 Series F and 2005 Series G Lease Revenue Bonds (2005 Series F and G bonds) in the amount of \$71,025 and \$71,025, respectively. The bonds were issued to provide funds for the Charcot Center, Valley Specialty Center and Morgan Hill Courthouse. In May 2008, the County through the Financing Authority issued lease revenue bonds 2008 Series M in the amount of \$143,105 to fully refund the 2005 Series F and G in the total amount of \$142,050. The difference of principal amount between the 2008 Series M and the refunded 2005 Series F and G bonds in the amount of \$1,055 represents additional funding for the cost of issuance of 2008 Series M and are scheduled to be repaid during fiscal year 2010 and 2011. The payment schedule for the 2008 Series M starting fiscal year 2012 remains the same as the combined debt service schedule for the refunded 2005 Series F and G bonds.

Objective of the Interest Rate Swaps. 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. (Citibank) in connection with its \$71,025 Series F and \$71,025 Series G variable rate lease revenue bonds. The intention of the swaps was to effectively change the Financing Authority's variable interest rates on the 2005 Series F and G bonds to a synthetic fixed rate of 3.185%. The Financing Authority continued to hedge the 2008 Series M bonds with the 2005 swap agreement.

Significant Terms. The bonds and related swap agreements both mature on May 15, 2035. The swaps' notional amount of \$142,050 matches the \$142,050 principal amount of the 2008 Series M variable rate bonds that mature starting fiscal year 2012. The swaps were entered into at the same time the 2005 Series F and G bonds were issued in May 2005. Starting fiscal year 2012, the notional value of the swaps declines as the principal amount of the associated debt begins to be repaid. Under the swaps, the 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%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Fair Value. The swaps had a combined aggregate negative fair value of \$12,679 as of June 30, 2011. Since coupons on the Financing Authority's variable 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.

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2011. Should the counterparties fail to perform according to terms of the swap contracts, the Financing Authority faced a maximum possible loss equivalent to the aggregate fair value of the swap. At June 30, 2011, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$12,679. To mitigate the potential credit risk, the counterparties are required to post collateral, in the form of cash or federal government securities, if their credit ratings for long-term unsecured debt obligations fall below "A" by Moody's Investors Service or "A" by Standard and Poor's or Fitch Ratings. As of June 30, 2011, Citibank's ratings were A1 by Moody's, A+ by Standard and Poor's, and A+ by Fitch Ratings.

Basis Risk. The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rates for the fiscal year ended June 30, 2011 were 2.80%.

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 County's rating of long-term, unsecured, unenhanced senior debt obligations or lease obligations of the County is withdrawn, suspended or falls below "Baa3" as determined by Moody's Investors Service, or "BBB-" as determined by Standard and Poor's, or the County fails to have any rated long-term, unsecured, unenhanced senior debt obligations or lease obligations.

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

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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

Market-Access Risk. Market-access risk is the risk that a government will not be able to enter credit markets or that credit will become more costly. The ability to sell auction rate securities (ARS) in an auction may be adversely affected if there are not sufficient buyers willing to purchase all the auction rate securities at a rate equal to or less than the ARS maximum rate. In the event of failed auctions, the bonds may default to higher interest rates as defined in the bonds' official statements.

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2011, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal	Variable Interest (1)	Net Swap Interest (2)	Total Interest
2012	\$ 3,950	\$ 71	\$ 3,898	\$ 3,969
2013	4,150	69	3,789	3,858
2014	4,300	67	3,674	3,741
2015	4,450	65	3,555	3,620
2016	4,600	62	3,433	3,495
2017 - 2021	25,150	276	15,188	15,464
2022 - 2026	29,350	209	11,496	11,705
2027 - 2031	34,400	131	7,179	7,310
2032 - 2035	31,700	39	2,141	2,180
	<u>\$ 142,050</u>	<u>\$ 989</u>	<u>\$ 54,353</u>	<u>\$ 55,342</u>

(1) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2011 of 0.05%.

(2) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2011 of 0.186%. Net swap interest at June 30, 2011 is calculated as follows: 3.185% minus (0.186% * 56.5% + 0.33%) equals to 2.75%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2011 is as follows:

	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance at July 1, 2010	\$ 16,122	\$ 16,122
Change in fair value	(3,443)	(3,443)
Balance at June 30, 2011	<u>\$ 12,679</u>	<u>\$ 12,679</u>

Derivative instrument liabilities of \$12,679 as of June 30, 2011 represent the fair value of the interest rate swap agreements and deferred outflows on derivative instrument of \$12,679 as of June 30, 2011 represent deferred outflow of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Division of the Lease Revenue Bonds

The division of the lease revenue bonds between the governmental activities and the SCVMC is based on the usage of bond proceeds by the governmental activities and business-type activities (SCVMC) as follows:

Lease Revenue Bonds:	Governmental Activities	Business-type Activities
1985 ACES	15.9%	84.1%
1994 Series A and B	1.4%	98.6%
1997 Series A	9.3%	90.7%
2006 Series I	58.5%	41.5%
2007 Series K	24.2%	75.8%
2008 Series A	4.4%	95.6%
2008 Series L	53.0%	47.0%
2010 Series N	94.2%	5.8%

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 capital improvements at the County's airports.

(c) Repayment Requirements

As of June 30, 2011, 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 and capital leases obligations.

Governmental Activities

Fiscal year ending June 30:	Lease Revenue Bonds (1)		Tobacco Securitization Asset-Backed Bonds		Certificates of Participation		Taxable Pension Funding Bonds		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 17,674	\$ 11,902	\$ -	\$ -	\$ 170	\$ 179	\$ 2,990	\$ 17,812	\$ 18,100	\$ 15,867
2013	14,912	11,156	-	-	175	173	4,040	17,616	1,000	15,671
2014	15,644	10,465	-	-	180	167	3,576	18,969	1,100	15,640
2015	15,318	9,622	-	-	190	160	3,976	19,479	1,100	15,606
2016	22,192	9,009	-	-	195	152	4,325	20,074	1,100	15,574
2017-2021	47,568	36,730	-	-	1,125	615	25,719	111,552	11,800	76,803
2022-2026	50,723	26,042	-	-	1,435	305	29,899	136,023	26,300	72,297
2027-2031	52,990	13,916	-	-	330	17	67,685	131,841	55,500	62,388
2032-2036	21,265	3,436	43,604	178,571	-	-	192,255	46,719	99,400	43,340
2037-2041	2,920	185	11,339	66,321	-	-	51,560	1,547	119,500	12,427
2042-2046	-	-	18,025	158,675	-	-	-	-	-	-
2047-2051	-	-	-	-	-	-	-	-	-	-
2052-2056	-	-	29,062	648,788	-	-	-	-	-	-
Total	\$ 261,206	\$ 132,463	\$ 102,030	\$ 1,052,355	\$ 3,800	\$ 1,768	\$ 386,025	\$ 521,632	\$ 334,900	\$ 345,613

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Lease Revenue Bonds Series B, the 2004 Lease Revenue Bonds Series A, and the 2008 Lease Revenue Bonds Series M are estimated using interest rate at June 30, 2011 of 0.07%, 0.07%, 0.08%, and 0.05%, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Certificates of participations retirement and related interest payments are serviced by revenues generated by the Santa Clara County Vector Control District. Taxable pension funding bonds are serviced by future charges to County departments. Accrued vacation and sick leave, accrued litigation liability, insurance claims payable and capital leases are generally liquidated by the General Fund.

Business-type Activities

Fiscal year ending June 30:	SCVMC		Airport	
	Lease Revenue Bonds (1)		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 22,196	\$ 15,844	\$ 170	\$ 246
2013	22,588	15,049	180	239
2014	23,955	14,316	185	231
2015	24,357	13,829	220	222
2016	19,661	13,127	155	213
2017-2021	112,050	53,745	905	946
2022-2026	138,155	34,003	1,155	691
2027-2031	68,960	25,174	1,470	365
2032-2036	104,520	12,888	695	35
2037	4,565	228	-	-
Total	<u>\$ 541,007</u>	<u>\$ 198,203</u>	<u>\$ 5,135</u>	<u>\$ 3,188</u>

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Lease Revenue Bonds Series B, and the 2008 Lease Revenue Bonds Series M are estimated using interest rate at June 30, 2011 of 0.07%, 0.07%, and 0.05%, respectively.

(d) Pledged Revenues for Bonds

The lease revenue bonds issued by the Hospital Facilities Authority and the Financing Authority (Financing Authorities) are payable by a pledge of revenues from the base rental payments payable by the County and SCVMC, pursuant to the Master Facility Lease Agreements between the County and the Financing Authorities for the use of facilities acquired or constructed by the Financing Authorities. Under California law, the County and SCVMC cannot make lease payments until the County and SCVMC has constructive use or occupancy of the property being financed. Once construction is completed, the leases act like direct financing leases with lease payments equal to debt service payments. Total debt service requirements remaining on the lease revenue bonds is \$1,132,879 payable through May 15, 2037. For the fiscal year ended June 30, 2011, the total lease payments made by the County and SCVMC and total debt service payments paid by the Financing Authorities totaled to \$70,815.

The County's Series 2007 Tobacco Settlement Asset-Backed Bonds are secured by the pledge of future tobacco settlement revenues made by participating cigarette manufacturers to the County. Tobacco settlement revenues due to the County on and after January 1, 2026 have been pledged until June 1, 2056, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$1,154,385. The County did not receive any tobacco settlement revenues for the bonds nor made any debt service payments on these bonds during the fiscal year ended June 30, 2011.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The County's Series 2009 GO Bonds are payable from pledged ad valorem property taxes until August 1, 2039, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$680,513. For the fiscal year ended June 30, 2011, the County collected \$30,398 in ad valorem property taxes and made total debt service payments in the amount of \$31,197.

The Airport's lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payment. The leases act like direct financing leases with lease payments received by ABAG equal to debt service payments made by the Airport. These revenues have been pledged until July 1, 2032, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$8,323. For the fiscal year ended June 30, 2011, the total principal and interest payment made by the Airport totaled to \$407.

(e) *Legal Debt Margin*

As of June 30, 2011, the County's legal debt limit (1.25% of the total assessed valuation) was \$3.70 billion. At June 30, 2011, the County has debt in the amount of \$334.9 million applicable to the limit outstanding and the legal debt margin was \$3.37 billion.

(f) *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.

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, 2011, arbitrage rebate payable in the amount of \$172 has been accrued in the government-wide statements – governmental activities under the "Due to other governmental agencies" financial statement caption, while \$777 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, 2011
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

(g) Housing Authority Long-term Obligations

Outstanding notes, loans, and bonds payable for the Housing Authority consisted of the following:

<u>Type of indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2011</u>
Business-type activity:					
Notes payable:					
Redevelopment Agency of the City of Morgan Hill	6/15/2021	1.00%	(1)	\$ 425	\$ 425
County of Santa Clara (San Pedro Gardens)	11/30/2012	0.00%	\$3/year	50	5
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(1)	973	973
Subtotal business-type activity				<u>\$ 1,448</u>	<u>1,403</u>
Component units (as of December 31, 2010):					
AE Associates, Ltd.					4,703
Rincon Gardens Associates, L.P.					16,897
Julian Street Partners, L.P.					18,035
HACSC/Choices Senior Associates					11,572
HACSC/Choices Family Associates					16,198
Blossom River Associates					16,470
Thunderbird Associates					2,923
Bascom HACSC Associates					13,185
Opportunity Center Associates					12,250
Helzer Associates					21,977
Willow/HACSC Associates					4,504
Fairground Luxury Family Apartments, L.P.					40,994
Fairground Senior Apartments, L.P.					23,272
Morrone Gardens Associates					3,946
Huff Avenue Associates					4,711
S.P.G. Housing, Inc. and subsidiaries					11,295
Villa Garcia, Inc.					2,150
Villa San Pedro HDC, Inc.					5,718
					<u>230,800</u>
Component unit (as of May 31, 2011):					
Poco Way Associates					<u>10,467</u>
Subtotal component units					<u>241,267</u>
Total Housing Authority					<u>\$ 242,670</u>

⁽¹⁾ Deferred until maturity

The debt service requirements to maturity for the Housing Authority's business-type activity's notes payable are as follows:

<u>Fiscal year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 3	\$ 43
2013	2	43
2014	-	43
2015	-	43
2016	-	44
2017-2021	425	216
2022-2026	973	126
Total	<u>\$ 1,403</u>	<u>\$ 558</u>

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(10) Hospital Program Revenues

(a) Net Patient Service Revenue

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

Net patient service revenues are calculated for the fiscal year ended June 30, 2011 as follows:

Patient service revenues	\$ 2,765,256
Contractual allowances	(1,838,700)
Bad debts provision	<u>(100,567)</u>
Net patient service revenues	<u>\$ 825,989</u>

Differences between final settlements with third-party payors 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 patient service revenues are 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 55% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2011. Revenue from the Medicare program represents approximately 17% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2011. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(c)).

(b) Other Program Revenues

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 and was extended through October 31, 2010. The implementing State legislation (S.B. 1100) was enacted by the Legislature in September 2005. The five-year Demonstration affects payments for 23 public 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). 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).

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(10) Hospital Program Revenues (Continued)

For the inpatient hospital cost-based reimbursement, each hospital will provide its own CPE and receive the entire 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.

The Demonstration authorized the State to create a Health Care Coverage Initiative in ten selected counties during fiscal year 2008 through fiscal year 2010 (with an extension to October 31, 2010) to expand health care coverage for eligible low-income, uninsured individuals using a \$180 million annual allotment of federal funds from the SNCP. Selected counties certify their public expenditures to claim federal funding to reimburse their health care services costs. The selected counties also will receive federal reimbursement for administrative costs associated with the implementation and ongoing administration of the coverage initiative programs. This funding is separate from the SNCP funding that is available. Senate Bill 1448, passed in July 2006, implements the Health Care Coverage Initiative. The County submitted a proposal to participate in the Coverage Initiative under a program named Valley Care. The Valley Care Program will provide comprehensive primary and preventive health care to enrollees with incomes at or below 200 percent of the federal poverty level. The County's proposal was selected for participation in April 2007. The County's allocation is \$20,700 annually during the period of September 1, 2007 to August 31, 2010.

Effective November 1, 2010, CMS and the State agreed on the standard terms and conditions of the 5 year renewal of the 1115 Medi-Cal waiver, officially called the California Bridge to Reform Demonstration. The funds available through the waiver will help California prepare for health care reform through investments in our safety net delivery system and expansion of coverage for adults between 0% and 200% of the Federal Poverty Level (FPL). The waiver establishes the Low Income Health Program (LIHP), which provides Federal matching funding for enrollees. The LIHP is the umbrella title for what is now a two component program:

- 1) Medicaid Coverage Expansion (MCE) covers adults with family incomes at or below 133% (FPL). These enrollees will be eligible for Medi-Cal in 2014 and the Federal matching funding is uncapped.
- 2) Health Care Coverage Initiative (HCCI) covers adults with family incomes between 134% and 200% FPL. These enrollees will be eligible for the State Exchange in 2014.

Effective November 1, 2010, the LIHP program will be managed by the County and will augment the California Medical Services Program (CMSP) for the medically indigent.

Additionally, as part of the renewed 1115 Waiver, CMS authorized California to invest savings generated through the Demonstration to achieve critical objectives, such as improved quality of care and better care coordination through safety net providers. Over 5 years, up to \$6.6 billion in federal funds will be available from a delivery system reform incentive pool (DSRIP), part of a \$15.3 billion safety net care pool. Many key concepts underlying federal health care reform will be tested, evaluated, and refined in California. As a result of participation in the DSRIP, SCVMC received \$51,818 in fiscal year 2011.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(10) Hospital Program Revenues (Continued)

The California Hospital Fee Program (AB 1383) and its amending legislation (AB 1653) were signed into law by the Governor of California and became effective on January 1, 2010 and September 8, 2010, respectively. The Hospital Fee Program (the HFP) covers the period beginning April 1, 2009 and expires on December 31, 2010. The legislation contains two components: (1) the Quality Assurance Fee Act which governs the hospital fee paid by participating hospitals (public hospitals, certain small and rural hospitals, most specialty hospitals, and long term care hospitals are exempt), and (2) the Medi-Cal Hospital Provider Stabilization Act governs the supplemental Medi-Cal payments to providers from the fund established to accumulate assessed hospital fees and matching federal funds.

The legislation allows for fee-for-service and managed health care supplemental payments to private hospitals, designated public hospitals, and non-designated public hospitals. The designated public hospitals will also receive direct grants under the HFP. The legislation also allows the State to retain and use a portion of the direct grants allocated to the designated public hospitals with a provision that the State allocates an equal amount of federal funds available under the Medi-Cal Hospital/Uninsured Care Demonstration Project to the designated public hospitals. The designated public hospital must have incurred sufficient expenditures so that the full amount allocated can be received as federal matching funds. On October 7, 2010, CMS approved the implementation of the HFP with the exception of the managed health care supplemental payment plan, which was approved on December 22, 2010. For the year ended June 30, 2011, SCVMC received a \$46,305 from the HFP.

(c) Capital Contributions

Senate Bill 1732 (SB 1732) 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 reporting purposes under accounting principles generally accepted in the United States of America. SB1732 capital contributions as of June 30, 2011 are \$7,503.

(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, 2011, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$	228,996
Percentage of operating expenses		22%

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, 2011
(Dollars in thousands)

(11) Net Assets/Fund Balances

(a) *Net Assets Classifications*

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 parks, mental health, 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.

During fiscal year 2007, the County, through the JPA and Corporation, issued \$102.0 million of Tobacco Settlement Asset-Backed Bonds and during fiscal year 2009, the County issued \$350.0 million in general obligation bonds. Proceeds received were used for the purpose of rebuilding and improving the seismic deficiencies of its medical facilities and the restricted bond proceeds were deposited in the SCVMC fund. These restricted debt proceeds are reported as part of restricted net asset in the County's business-type activities. However, the debt service will be paid with governmental revenues and as such these bonds are reported with unrestricted net assets in the County's governmental activities. In accordance with GASB guidance, the County reclassified restricted proceeds at year end in the amount of \$266.3 million of total net assets from restricted for capital facilities to unrestricted and reclassified capital assets funded by these bond issues in the amount of \$170.6 million from net assets invested in capital assets, net of related debt to unrestricted to reflect the primary government as a whole perspective.

(b) *Fund Balances Classifications*

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classification based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balances for government funds are made up of the following:

Nonspendable Fund Balance – This category represents amount that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – This category represents amounts that can be spent only for specific purposes stipulated by external parties, constitutionally or through enabling legislation.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(11) Net Assets/Fund Balances (Continued)

Committed Fund Balance – This category represents amounts that can only be used for the specific purposes determined by a formal action of the County’s highest level of decision-making authority, the Board of Supervisors. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – This category represents amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board of Supervisors or (b) a body (for example: a budget or finance committee) or official to which the Board has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – This category represents the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classification, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(11) Net Assets/Fund Balances (Continued)

Fund balances for the governmental funds as of June 30, 2011, were distributed as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	\$ 1,493	\$ 923	\$ 2,416
Long-term receivable	195	2,162	2,357
Prepaid items	16,980	-	16,980
Subtotal	<u>18,668</u>	<u>3,085</u>	<u>21,753</u>
Restricted for:			
General government	28,343	1,193	29,536
Public protection	-	8,727	8,727
Public ways and facilities	-	48,767	48,767
Health and sanitation	-	130,523	130,523
Public assistance	-	5,816	5,816
Capital projects	-	96,174	96,174
Debt service	-	73,476	73,476
Education	-	26,410	26,410
Recreation	-	7,679	7,679
Subtotal	<u>28,343</u>	<u>398,765</u>	<u>427,108</u>
Committed to:			
General government	4,958	-	4,958
Public protection	-	15,041	15,041
Public ways and facilities	10,799	640	11,439
Capital projects	-	13,264	13,264
Subtotal	<u>15,757</u>	<u>28,945</u>	<u>44,702</u>
Assigned to:			
General government	24,146	-	24,146
Public protection	-	20,202	20,202
Subtotal	<u>24,146</u>	<u>20,202</u>	<u>44,348</u>
Unassigned	159,730	-	159,730
Total	<u>\$ 246,644</u>	<u>\$ 450,997</u>	<u>\$ 697,641</u>

County's Contingency Reserve Policy. The Board of Supervisors adopted a contingency reserve policy that set the reserve at 5 percent of the General Fund's revenues, net of pass-throughs. The contingency reserve can be used to support costs on a one-time basis for unanticipated and unforeseen events as stated in the policy or to support ongoing costs as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. As of June 30, 2011, the County has a balance in its contingency reserve in the amount of \$91,593 reported as part of the General Fund's unassigned fund balance.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans

(a) *California Public Employees' Retirement System – County*

Plan Description

All eligible County employees participate in the State's Public Employees' Retirement System (PERS). The County participates in four plans with PERS. Two plans (Miscellaneous and Safety) cover the Santa Clara County Central Fire District (Central Fire) and two plans (Miscellaneous and Safety) cover 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 five 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 Miscellaneous employees' defined benefit retirement plan from an agent multiple-employer to a cost sharing multiple-employer. The Central Fire's Miscellaneous employees' retirement plan is under the PERS Miscellaneous 2.7% at 55 Risk Pool. The County employees' plans (Miscellaneous and Safety) and the Central Fire Safety employees plan are agent multiple-employer defined benefit retirement plans. PERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by PERS. The County is required to contribute at an actuarially determined rate or prepay a discounted annual required contribution between July 1 and July 15. Based on the June 30, 2008 actuarial report, the required employer contribution for fiscal year 2011 was 13.334% for Miscellaneous employees and 23.527% for Safety employees. In addition, pursuant to the 2008 contract amendment between the County and its Miscellaneous employees, the Miscellaneous employees agreed to pay for its enhanced pension benefits (from 2% at 55 to 2.5% at 55) and contribute 2.761% of the County's required contributions. At June 30, 2011, all County employee participants are also required to contribute 8.0% (9.0% for Safety employees) of their annual covered salary. The County made 74.4% of the employees' required payroll contributions for fiscal year 2011.

Under the terms of the memorandum of agreement, effective December 1, 2008, Central Fire's Miscellaneous Plan members are not required to contribute a portion of the employer rate. Based on the June 30, 2008 actuarial report, the Central Fire required employer contribution for fiscal year 2011 was 20.210% for Miscellaneous employees and 26.709% for Safety employees. At June 30, 2011, all Central Fire employee participants are required to contribute 8% (9% for Safety employees) of their annual covered salary.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual Pension Costs

The required contributions were determined as part of the June 30, 2008 actuarial valuations using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.75%; (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. 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 over 15 years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2008 is as follows:

	<u>County</u>	<u>Central Fire</u>
Miscellaneous Plan	27 years	15 years
Safety Plan	27 years	30 years

The County's changes in net pension asset for the year ended June 30, 2011, were as follows:

	<u>County Miscellaneous</u>	<u>County Safety</u>	<u>Central Fire</u>
Annual required contribution	\$ 168,362	\$ 45,561	\$ 9,806
Interest on net pension asset	(20,821)	(7,207)	-
Amortization of net pension asset	17,109	5,922	-
Annual pension cost	164,650	44,276	9,806
Contributions made	(168,362)	(45,561)	(9,806)
Change in net pension asset	(3,712)	(1,285)	-
Net pension asset, beginning of year	(268,660)	(92,990)	-
Net pension asset, end of year	<u>\$ (272,372)</u>	<u>\$ (94,275)</u>	<u>\$ -</u>

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

Fiscal Year Ended	<u>County Miscellaneous</u>			<u>County Safety</u>		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 164,650	102%	\$ (272,372)	\$ 44,276	103%	\$ (94,275)
6/30/2010	142,994	103%	(268,660)	38,541	104%	(92,990)
6/30/2009	137,928	103%	(264,643)	36,226	104%	(91,599)

Three-year trend information for the Central Fire is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 9,806	100%	\$ -
6/30/2010	9,489	100%	-
6/30/2009	9,250	100%	-

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Funded Status and Funding Progress

The funding status and progress are determined as part of the June 30, 2010 (2009 for Central Fire) actuarial valuations (the most recent valuation available) using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.75%; (b) projected salary increases of 3.55% to 14.45% depending on age, service, and type of employment; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. 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 over 15 years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2010 is as follows:

	<u>County</u>	<u>Central Fire</u>
Miscellaneous Plan	25 years	18 years
Safety Plan	25 years	29 years

Summary of funding progress are as follows:

	<u>County Miscellaneous Plan</u>	<u>County Safety Plan</u>	<u>Central Fire Safety Plan</u>
Actuarial valuation date	6/30/2010	6/30/2010	6/30/2009
Actuarial asset value	\$ 5,372,720	\$ 1,539,938	\$ 300,245
Actuarial accrued liability - entry age	<u>6,532,024</u>	<u>1,836,470</u>	<u>372,850</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,159,304</u>	<u>\$ 296,532</u>	<u>\$ 72,605</u>
Funded ratio	82.3%	83.9%	80.5%
Covered payroll	\$ 1,170,799	\$ 196,504	\$ 30,871
UAAL as percentage of covered payroll	99.0%	150.9%	235.2%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) County of Santa Clara Supplemental Benefit Plan - County

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (the Supplemental Plan)). County employees hired or accepted written job offers before July 1, 2008 and with compensation in excess of the Internal Revenue Code (IRC) section 401(a)(17) limitations are eligible to participate in the Supplemental Plan. The Supplemental Plan is a tax-deferred plan that is subject to an annual contribution limit under the IRC and any supplemental benefits in excess of the IRC limit will be paid to the employee as taxable income. The County will contribute and deposit the supplemental benefits into the Supplemental Plan at the end of January, following the close of the plan's calendar year. Employer contributions become fully vested at the time of the County's contribution. The Supplemental Plan, which had 103 participants, had ending cash value of \$9,117 at June 30, 2011. During the fiscal year ended June 30, 2011, the County contributed \$2,563 to the Supplemental Plan.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

(c) *Housing Authority of the County of Santa Clara Retirement Plan & Trust*

In January 2009, the Housing Authority entered into a contract with PERS in order to participate in a PERS defined benefit pension plan (2% at age 55 Supplemental Formula with 100% Prior Service). The PERS Pension Plan is administered by the Public Employees Retirement System of the State of California. This is for all Housing Authority employees hired after January 12, 2009 and includes 209 (out of 211) employees who as of January 12, 2009 elected PERS pension plan coverage.

Plan Description

All eligible Housing Authority employees participate in PERS, an agent multiple-employer defined benefit pension plan. 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 Authority resolutions. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution requirements of plan members and the Housing Authority are established and may be amended by PERS. Effective July 1, 2009, the Housing Authority elected to pay 6% and the employees pay 1% of the 7% employees' contribution and effective January 1 2010, the Housing Authority elected to pay 7% of the employees' contribution. The Housing Authority is also required to contribute the remaining amounts necessary to fund PERS. Employer contributions are determined by a rate that is subject to annual review and adjustment by PERS actuaries and adopted by the PERS Board of Administration.

In December 2009, the Housing Authority made a "lump sum" payment in the amount of \$14,420 to PERS to fund its actuarially unfunded liability. As a result, the employer's contribution rate decreased from 19.562% (pre-payment rate) to 7.314% (post-payment rate). For the year ended June 30, 2011, the Housing Authority contributed its annual required contribution of \$934 and prepaid another \$2,092 towards its actuarial unfunded liability.

Annual Pension Cost

The Housing Authority's actual contribution rates which was determined as part of the July 31, 2008 new agency actuarial valuation. This valuation was performed in order to set forth the actuarial assets and funding liabilities of the Housing Authority's plan as of July 31, 2008 and to establish the initial "fresh start" actuarially required contribution rates of this plan. The July 31, 2008 new agency actuarial valuation used the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3% per year inflation adjustment. CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2009 is 12 years.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The Housing Authority's changes in net pension asset for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 934
Interest on net pension asset	(1,118)
Amortization of net pension asset	1,734
Annual pension cost	<u>1,550</u>
Contributions made	<u>3,026</u>
Change in net pension asset	(1,476)
Net pension asset, beginning of year	<u>(14,420)</u>
Net pension asset, end of year	<u><u>\$ (15,896)</u></u>

Three-year trend information for the Housing Authority is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 1,550	195%	\$ (15,896)
6/30/2010	1,332	1183%	(14,420)
6/30/2009	1,154	100%	-

Funded Status and Funding Progress

As discussed above, the CalPERS' Board of Administration adopted updated actuarial assumptions to be used beginning with the June 30, 2009 valuation. The Housing Authority's June 30, 2010 actuarial valuation used the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.55% to 14.45% depending on age, service, and type of employment, and (c) 3% per year inflation adjustment. CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2010 is 11 years. The Housing Authority's summary of funding progress is as follows:

Actuarial valuation date	6/30/10
Actuarial asset value	\$ 31,452
Actuarial accrued liability - entry age	<u>35,087</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,635</u>
Funded ratio	89.6%
Covered payroll	\$ 13,363
UAAL as percentage of covered payroll	27.2%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

(d) *FIRST 5 Santa Clara County IRC 401(a) Plan*

In November 2001, FIRST 5's board approved the implementation of an Internal Revenue Code (IRC) Section 401(a) retirement plan (the Plan) effective January 1, 2002 for all FIRST 5 employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding temporary employees who work less than 20 hours per week. Currently, 35 employees are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Effective January 1, 2008, the Plan had three different types of employer contributions which vest 100% after three years of employment service. The Plan requires employer contributions of 7% of employees' annual salaries and wages. The employer's contributions under this requirement were \$156 for the year ended June 30, 2011. Additional supplemental contributions may be made by the employer based on a compensation arrangement between employee and the employer. The contribution requirements of Plan members and First 5 are established by and may be amended by the Unified Trust Company.

(e) *Postretirement Health Care Benefits – County*

Plan Description

The County's defined benefit postemployment healthcare plan provides healthcare benefits to eligible County (excluding Central Fire and Housing Authority) employees and their surviving spouses. Central Fire and Housing Authority employees have separate defined benefit postemployment healthcare plans. 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 the County.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through PERS. 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 CERBT is not available.

Funding Policy

In the June 30, 2009 actuarial valuation, it was assumed that the County would contribute the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. In the June 30, 2011 actuarial valuation, due to budgetary constraints, the County plans to fund the normal cost for one year of service accrual earned by the active employee plus the implicit subsidy. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC rate for the fiscal year 2010-11 calculated in the June 30, 2009 actuarial valuation is 10.2% of annual covered payroll.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The contribution requirements of plan members and the County are established and may be amended by the Board. Due to budgetary constraints, the County contributed less than 100% of its required contribution and contributed \$59,642 or 42.2%, of the annual OPEB cost of \$141,213. Of the total amount contributed in fiscal year 2010-11, the County did not make a deposit into the CERBT and contributed \$59,642 towards benefit costs.

Annual required contribution	\$ 140,636
Interest on net OPEB obligation	2,963
Adjustment to annual required contribution	<u>(2,386)</u>
Annual OPEB cost	141,213
Contributions made	<u>(59,642)</u>
Change in net OPEB obligation	81,571
Net OPEB obligation, beginning of year	<u>38,238</u>
Net OPEB obligation, end of year	<u><u>\$ 119,809</u></u>

Annual OPEB Cost

The required contributions were determined as part of the June 30, 2009 actuarial valuation. Three-year trend information for the County (excluding the Central Fire and the Housing Authority) is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 141,213	42.2%	\$ 119,809
6/30/2010	128,487	70.2%	38,238
6/30/2009	123,772	100.0%	-

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of certain events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The significant actuarial methods and assumptions used to compute the actuarially determined OPEB annual required contributions and the funded status are as follows:

<u>Description</u>	<u>Method/Assumption</u> June 30, 2009	<u>Method/Assumption</u> June 30, 2011
Valuation date	June 30, 2009	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal; Level dollar
Amortization method for actuarial accrued liabilities	30 years, open, level percent of payroll	30 years, open, level percent of payroll
Remaining amortization period	30 years as of June 30, 2009	30 years as of June 30, 2011
Actuarial asset valuation method	Market value	Market value
Investment rate of return	7.75%	6.61% *
Price inflation	3.00%	3.00%
Wage inflation	3.25%	3.25%
Projected payroll increases	Increase of 3.25% to 13.15% depending on age, service and type of employment.	Increase of 3.65% to 13.15% depending on age, service and type of employment.
Healthcare cost trend rate:		
Medical	8.0% for 2010-11, reduced by 0.5% in year 2011-12 to 2013-14, then graded down by 0.25% per year to an ultimate rate of 5.0% by 2019-20.	7.25% for 2011-12, 8.50% for 2012-13, then graded down by 0.5% to an ultimate rate of 5.0% by year 2019-20.

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the County's investments, based on the funded level of the plan at the valuation date. The discount rate used is a blended rate based on the 7.61% expected return for assets invested with CERBT and the 5.70% expected return on the County's investments. The 5.70% was developed by the County using a weighted average of the 15-year historical returns from the County's Retiree Healthcare Plan (80%) and County's Commingled Pool (10%) and the 30-year historical returns from 30-year Treasury Bonds (10%).

Funding Status and Funding Progress

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided as the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

As of June 30, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,035,456
Actuarial value of plan assets	<u>251,789</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,783,667</u></u>
Funded ratio (actuarial value of plan assets/AAL)	12.4%
Covered payroll (active plan members)	\$ 1,201,539
UAAL as a percentage of covered payroll	148.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

(f) Postretirement Health Care Benefits – Santa Clara County Central Fire Protection District

The Central Fire maintains a separate OPEB plan and uses the projected unit credit method; a level dollar amortization over 30 years on an open basis. The actuarial assumptions included a 3.0% per annum discount rate, 3.0% per annum interest cost, and 3.0% per annum compensation increase. The table below summarizes the position of the Central Fire’s OPEB plan for the fiscal year ended June 30, 2011.

Annual required contribution	\$ 14,689
Interest on beginning net OPEB obligation	700
Amortization of net OPEB obligation	<u>(1,173)</u>
Annual OPEB cost	14,216
Contributions made	<u>(2,967)</u>
Change in net OPEB obligation	11,249
Net OPEB obligation, beginning of year	23,322
Net OPEB obligation, end of year	<u><u>\$ 34,571</u></u>

The required contributions were determined as part of the June 30, 2010 valuation and that valuation was used to determine the ARC for the fiscal year ended June 30, 2011. The following table represents annual OPEB cost for the past three years, the percentage of annual OPEB cost contributed, and net OPEB obligations:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 14,216	20.8%	\$ 34,571
6/30/2010	14,005	20.2%	23,322
6/30/2009	14,593	14.6%	12,461

As of June 30, 2010, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 176,569
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 176,569</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Annual covered payroll	\$ 38,956
UAAL as a percentage of annual covered payroll	453.3%

Details of the Central Fire’s OPEB plan may be found in its financial report for the fiscal year ended June 30, 2011. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, California, 95032.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

(g) Postretirement Health Care Benefits – Housing Authority

The Housing Authority maintains a separate OPEB plan. During the year ended June 30, 2010, the Housing Authority entered into an agreement with PERS where by the Housing Authority is a contracting agency under the Public Employees’ Medical and Hospital Care Act (PEMHCA), which is administered by PERS for the provision of healthcare insurance programs for both active and retired employees. The Authority participates in the California Employers’ Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to prefund other postemployment benefits through PERS. The financial statements for CERBT may be obtained by writing the California Public Employees’ Retirement System, Constituent Relations Office, CERBT (OPEB), P.O. Box 242709, Sacramento, California 94229-2709 or by calling 888-225-7377.

In the Housing Authority’s July 1, 2009 actuarial valuation, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age of hire) and assumed exit (maximum retirement age). The actuarial assumptions included a 7.75 percent investment rate of return and an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent in year 2017 and beyond. The actuarial assumptions also include a 3.25 percent salary increase and a 3.25 percent assumed increase for amortization payments. The actuarial value of assets was determined using the market value of the assets. The Housing Authority’s unfunded actuarial accrued liability is being amortized over one year on a closed basis.

The contribution requirements of plan members and the Housing Authority are established and may be amended by the Board. The Housing Authority contributes the amounts necessary to fund the annual required contribution. For the year ended June 30, 2011, the Housing Authority’s annual OPEB cost equals to its ARC. The required contributions were determined as part of the July 1, 2009 valuation.

Three-year trend information for the Housing Authority’s OPEB plan is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 284	100.0%	\$ -
6/30/2010	4,567	126.9%	-
6/30/2009	687	9.5%	1,230

As of July 1, 2009, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 5,124
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 5,124</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Annual covered payroll	\$ 13,201
UAAL as a percentage of annual covered payroll	39%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

During the year ended June 30, 2010 (subsequent to the actuarial valuation dated July 1, 2009), the Housing Authority deposited \$5,724 to the CERBT and fund its actuarial accrued liability.

Details of the Housing Authority’s OPEB plan may be found in its financial report for the fiscal year ended June 30, 2011. The report may be obtained by writing to the Housing Authority of the County of Santa Clara at 675 North First Street, Suite 500, San Jose, CA 95110.

(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.

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	\$8,578 per occurrence	\$35,000
General Liability	Up to \$2,000	\$8,578 per occurrence	\$35,000
Medical Malpractice	Up to \$500	\$1,500 per occurrence	\$20,000
Workers' Compensation	Up to \$4,000	\$1,000 per occurrence	\$25,000 annual aggregate Statutory
Property Damage	Up to \$50 ⁽²⁾ (This is deductible)	\$3,000 per occurrence \$10,000 annual aggregate 3/31/11-3/31/12	Up to \$1,830,000 ⁽³⁾
Earthquake	5% of property value \$100 minimum deductible		Up to \$472,500 ⁽⁴⁾
Airport	Up to \$5 (This is deductible)		\$30,000
Crime Bond	Up to \$25		\$10,000
Pollution	Up to \$500		\$10,000

⁽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 \$610,000 each for a total of \$1,830,000.

⁽⁴⁾ Insured values are split between 3 schedules with limits of \$82,500 each, plus a rooftop of \$225,000, for a total of \$472,500.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(13) Risk Management (Continued)

There have been no settlement amounts exceeding commercial or 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 computes its claims liability based on the expected value discounted at 3.0% for General and Automobile Liability claims, 4.5% for Malpractice claims and 5.0% for Workers’ Compensation claims. Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for the County’s self-insurance internal service funds are as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of year	\$ 109,964	\$ 106,037
Incurred claims and changes in estimate	73,174	72,296
Claim payments	<u>(67,815)</u>	<u>(68,369)</u>
Unpaid claims, end of year	<u>\$ 115,323</u>	<u>\$ 109,964</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 \$11,840 for the fiscal year ended June 30, 2011.

(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</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
2012	\$ 40,244	\$ 5,386	\$ 45,630
2013	37,922	4,763	42,685
2014	31,960	4,854	36,814
2015	32,768	5,004	37,772
2016	33,468	5,191	38,659
2017-2021	144,310	240	144,550
2022-2026	69,837	-	69,837
2027-2031	<u>991</u>	<u>-</u>	<u>991</u>
Total	<u>\$ 391,500</u>	<u>\$ 25,438</u>	<u>\$ 416,938</u>

Rent expense for fiscal year 2011 was approximately \$40,244 and \$5,386 for the governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2011
 (Dollars in thousands)

(14) Commitments and Contingencies (Continued)

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

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2012	\$ 3,620	\$ 490	\$ 4,110
2013	3,321	91	3,412
2014	3,283	93	3,376
2015	3,358	95	3,453
2016	3,434	97	3,531
2017-2021	16,340	406	16,746
2022-2026	18,230	-	18,230
2027-2031	20,269	-	20,269
Total	<u>\$ 71,855</u>	<u>\$ 1,272</u>	<u>\$ 73,127</u>

Rent income for fiscal year 2011 was approximately \$6,531 and \$2,807 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, 2011, 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.

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, 2004 (pending a Notice of Program Reimbursement) and June 30, 2007, 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2011
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

Net receivables from patients and third-party payers at June 30, 2011, are summarized as follows:

Medicare	\$ 27,417
Medi-Cal	47,866
Insurance and other third-party payers	33,341
Private patients	<u>1,583</u>
Total	<u>\$ 110,207</u>

(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. SCVMC has reviewed the SB 1953 compliance requirements and developed 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. SCVMC estimates the total remediation cost to make its facilities SB 1953-compliant will be approximately \$1.4 billion. Costs incurred through June 30, 2011 were \$224.0 million.

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.

In fiscal year 2009, after authorization at an election of the registered voters of the County on November 4, 2008, the County issued General Obligation Bonds Series 2009 A in May 2009. The proceeds from the sale in the amount of \$350,000 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, 2011, the outstanding balance of these bonds was \$41,474. 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.

(f) Conduit Debt - Insured Revenue Bonds

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

On May 15, 2008, the 2007 Insured Revenue Bonds were mandatory tendered at which time Series A (\$49,175), Series B (\$49,175), and Series C (\$49,175) (collectively, "2007 Remarketed Insured Revenue Bonds") were remarketed as fixed interest rate bonds. The 2007 Remarketed Insured Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.75%, and have a final maturity date of February 1, 2041. At June 30, 2011, the total outstanding balances of these conduit bonds were \$139,675.

On March 30, 2009, the Financing Authority served as the conduit issuer of the 2009 Variable Rate Revenue Bonds (2009 Bonds) in the amount of \$50,000 in order to provide funds for the El Camino Hospital Project. The 2009 Bonds bear variable interest rate based on Weekly Interest Rate as defined in the bond indenture. The 2009 Bonds have a final maturity date of February 1, 2044. At June 30, 2011, the total outstanding balance for the 2009 Bonds was \$50,000.

The Financing Authority and the County have no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from payments made by the El Camino Hospital under the Loan Agreements. 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.

(g) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the County as an extension of formal budgetary accounting in the General Fund, special revenue funds, and capital projects funds. Encumbrances still open at year end are not accounted for as expenditures and liabilities but as part of restricted, committed, or assigned fund balance. At June 30, 2011, encumbrance totaled to \$3,843, \$10,127, and \$22,102 for the General Fund, special revenue funds, and capital projects funds, respectively.

(15) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the sale of the New Idria Mines to the County. During the heyday of the mining era, New Idria Mines extracted mercury from the Almaden Hillside from the mid 1800s to 1975. One of the by-products of the mercury extraction process is a material called calcines. Calcines have been deposited in various areas in the Park and are considered by several regulatory agencies to be a source of mercury contamination in the watershed.

In 1987, the State Department of Toxic Substance Control issued a Remedial Action Order and required the Parks Department to remove calcine piles and re-work calcine and sediments containing mercury exceeding a designated level. This work was completed by 2000. However, later in the year, the United States Department of Interior and California State Department of Fish and Game advised the County and Santa Clara Valley Water District that it intended to bring forth a Natural Resource Damage Assessment against both parties, as well as other potential responsible parties, for assessing damages for injuries to fish and bird life resulting from mercury contamination in Guadalupe River watershed. In 2005, these parties executed a Consent Decree that outlined specific obligations, including a calcines removal project at the Park; this work was completed and continues to be monitored.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2011

(Dollars in thousands)

(15) Pollution Remediation (Continued)

In November 2009, the State Water Resources Control Board approved a Basin Plan Amendment for the Guadalupe River Watershed, which established a total maximum daily load for mercury mine wash and sediment and included an implementation plan to reduce mercury in the waters of the Guadalupe River watershed. In June 2009, the County received a \$13267 order from Regional Water Quality Control Board (RWQCB) to conduct a site investigation by December 2010 and evaluate the erosion potential of mercury mining waste and the potential for seeps to discharge mercury from mining waste to surface waters. In November 2009, the RWQCB issued a second \$13267 order requiring that the County develop and participate in a coordinated watershed monitoring plan.

The County has concluded the required evaluation for erosion potential of mercury mining waste. Further consideration and consultation with the RWQCB needs to occur before a particular action(s) is ordered or agreed to. Therefore the outlays for the Park's pollution remediation liability are not yet reasonably estimable.

(16) Subsequent Events

Tax and Revenue Anticipation Notes (TRANS) – On October 19, 2011, the County issued Tax and Revenue Anticipation Notes (TRANS) in the amount of \$125,000. The purpose of the issue is to help the County meet its short term cash flow requirements. The proceeds will be used by the County for any purpose for which the County is authorized to expend funds from its General Fund. The maturity date of the TRANS is June 29, 2012 and they bear interest fixed at 2.00% per annum.

Qualified Energy Conservation Bonds – On October 28, 2011 the Financing Authority issued \$3,639 of Series B Qualified Energy Conservation Lease Revenue Bonds (QECB's) on behalf of the County. The bond proceeds will be used for lighting upgrades and lighting controls with energy efficient systems. QECB's are a form of taxable lease revenue bonds which receive a direct subsidy payment from the Federal government to help offset 70.0 percent of borrowing costs. The subsidy is intended to promote qualified energy projects.

Citibank Credit Ratings Downgrade - On November 29, 2011, Standard & Poor's lowered its long-term senior debt obligation credit rating on debt of Citibank, N.A. from A+ to A. Citibank, N.A. is required to post collateral for the interest rate swap related to the 2008 Series M Bonds, in the form of cash or federal government securities, if their credit ratings for long-term unsecured debt obligations fall below "A" by Moody's Investor Service or "A" by Standard and Poor's or Fitch Ratings.

Teeter Plan Obligation Commercial Paper Notes - The Teeter Plan Obligation Commercial Paper Notes Series A with maturity dates ranging from October 3, 2011 through December 7, 2011 were extended with new maturity dates ranging from February 6, 2012 to May 3, 2012 and interest rates from 0.15% to 0.21%.

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**Required Supplementary
Information**

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Schedule of Funding Progress
 June 30, 2011
 (Dollars in thousands)

Schedule of Funding Progress – PERS Defined Benefit Pension - County Miscellaneous Plan:

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability-Entry Age	Accrued Liability – UAAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
6/30/2010	\$ 5,372,720	\$ 6,532,024	\$ 1,159,304	82.3%	\$ 1,170,799	99.0%
6/30/2009	5,047,923	6,170,114	1,122,191	81.8%	1,165,056	96.3%
6/30/2008	4,746,685	5,473,389	726,704	86.7%	1,147,150	63.3%

Schedule of Funding Progress – PERS Defined Benefit Pension - County Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability-Entry Age	Accrued Liability – UAAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
6/30/2010	\$ 1,539,938	\$ 1,836,470	\$ 296,532	83.9%	\$ 196,504	150.9%
6/30/2009	1,465,146	1,737,191	272,045	84.3%	190,802	142.6%
6/30/2008	1,398,644	1,603,444	204,800	87.2%	175,936	116.4%

Schedule of Funding Progress – PERS Defined Benefit Pension - Central Fire Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2009	\$ 300,245	\$ 372,850	\$ 72,605	80.5%	\$ 30,871	235.2%
6/30/2008	275,530	323,645	48,115	85.1%	26,397	182.3%
6/30/2007	259,099	304,726	45,627	85.0%	25,459	179.2%

Schedule of Funding Progress – PERS Defined Benefit Pension - Housing Authority:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2010	\$ 31,452	\$ 35,087	\$ 3,635	89.6%	\$ 13,363	27.2%
6/30/2009	13,317	29,305	15,988	45.4%	12,875	124.2%
6/30/2008	n/a	n/a	n/a	n/a	n/a	n/a

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Schedule of Funding Progress
 June 30, 2011
 (Dollars in thousands)

Schedule of Funding Progress – County Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2011	\$ 251,789	\$ 2,035,456	\$ 1,783,667	12.4%	\$ 1,201,539	148.4%
6/30/2009	141,418	1,399,865	1,258,447	10.1%	1,267,398	99.3%
6/30/2008	79,821	1,308,989	1,229,168	6.1%	1,255,578	97.9%

The increase in the County’s UAAL from the June 30, 2011 and the June 30, 2009 actuarial valuation in the amount of \$525.2 million is mainly due to the decrease in the discount rate used in the June 30, 2011 valuation. The UAAL determined in the June 30, 2009 valuation was based on a discount rate of 7.75% and the June 30, 2011 valuation used a discount rate of 6.61%. The decrease in the discount rate was due to the following factors:

- In the June 30, 2009 valuation, it was assumed that the County would fully prefund the annual required contribution (ARC). In the June 30, 2011 valuation, due to budgetary constraints, the County plans to fund the normal cost for one year of service accrual earned by the active employee plus the implicit subsidy. As such, GASB requires a lower discount rate to be used when the ARC is not fully prefunded.
- In the June 30, 2009 valuation, CalPERS suggested using one discount rate for a plan fully prefunding its ARC. Effective for valuations performed after June 15, 2011, the plan has the option of three asset allocation strategies for assets invested in the CalPERS Employers Retiree Benefits Trust. The County has elected a strategy, which allows a discount rate no higher than 7.61%, even for a plan that is fully prefunding its ARC.
- Since the County is no longer fully prefunding its liability, a blended discount rate that reflects the proportionate amount of plan and employer assets expected to be used to finance the payment of benefits has to be used in the actuarial valuation.

**Schedule of Funding Progress –
 Santa Clara County Central Fire Protection District Other Postemployment Benefits:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2010	\$ -	\$ 176,569	\$ 176,569	0.0%	\$ 38,956	453.3%
6/30/2008	-	165,398	165,398	0.0%	33,269	497.2%

**Schedule of Funding Progress –
 Housing Authority of the County of Santa Clara Other Postemployment Benefits:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2009	\$ -	\$ 5,124	\$ 5,124	0.0%	\$ 13,201	38.8%
6/30/2008	-	5,441	5,441	0.0%	11,631	46.8%

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, 2011
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Budgetary fund balances, beginning of year	\$ 257,325	\$ 257,325	\$ 257,325	\$ -
Resources (inflows):				
Taxes	629,031	629,386	625,516	(3,870)
Licenses and permits	12,482	12,700	12,025	(675)
Fines, forfeitures, and penalties	45,551	54,579	64,259	9,680
Interest and investment income	10,561	11,356	8,658	(2,698)
Intergovernmental revenues	1,133,767	1,144,491	1,097,449	(47,042)
Charges for services	143,305	147,130	143,783	(3,347)
Other revenue	25,388	28,599	20,475	(8,124)
Other financing sources	20,901	20,901	4,000	(16,901)
Interfund transfers	127,861	193,086	126,228	(66,858)
Total resources (inflows) available for appropriation	<u>2,148,847</u>	<u>2,242,228</u>	<u>2,102,393</u>	<u>(139,835)</u>
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,054	1,054	978	76
Services and supplies	65	65	22	43
Total Supervisorial District 1	<u>1,119</u>	<u>1,119</u>	<u>1,000</u>	<u>119</u>
Supervisorial District 2				
Salaries and benefits	1,062	923	914	9
Services and supplies	57	108	85	23
Total Supervisorial District 2	<u>1,119</u>	<u>1,031</u>	<u>999</u>	<u>32</u>
Supervisorial District 3				
Salaries and benefits	1,062	1,062	999	63
Services and supplies	57	81	55	26
Expenditure reimbursements	-	-	4	(4)
Total Supervisorial District 3	<u>1,119</u>	<u>1,143</u>	<u>1,058</u>	<u>85</u>
Supervisorial District 4				
Salaries and benefits	1,062	1,062	992	70
Services and supplies	57	57	14	43
Total Supervisorial District 4	<u>1,119</u>	<u>1,119</u>	<u>1,006</u>	<u>113</u>
Supervisorial District 5				
Salaries and benefits	1,054	1,002	996	6
Services and supplies	65	117	97	20
Total Supervisorial District 5	<u>1,119</u>	<u>1,119</u>	<u>1,093</u>	<u>26</u>
Clerk - Board of Supervisors				
Salaries and benefits	3,438	3,438	3,163	275
Services and supplies	4,999	4,941	4,577	364
Fixed assets	-	7	7	-
Expenditure reimbursements	(212)	(212)	(151)	(61)
Total Clerk - Board of Supervisors	<u>8,225</u>	<u>8,174</u>	<u>7,596</u>	<u>578</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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	10,718	10,602	10,396	206
Services and supplies	20,389	32,287	20,661	11,626
Fixed assets	-	10	10	-
Expenditure reimbursements	(254)	(466)	(325)	(141)
Total Office of the County Executive	<u>30,853</u>	<u>42,433</u>	<u>30,742</u>	<u>11,691</u>
Controller-Treasurer				
Salaries and benefits	9,978	9,978	9,942	36
Services and supplies	8,183	11,793	11,282	511
Expenditure reimbursements	(39,513)	(39,513)	(39,531)	18
Interfund transfers	-	47,660	47,660	-
Total Controller-Treasurer	<u>(21,352)</u>	<u>29,918</u>	<u>29,353</u>	<u>565</u>
Tax Collector				
Salaries and benefits	5,531	5,531	5,354	177
Services and supplies	5,112	5,221	4,906	315
Total Tax Collector	<u>10,643</u>	<u>10,752</u>	<u>10,260</u>	<u>492</u>
Office of the Assessor				
Salaries and benefits	26,348	25,921	25,699	222
Services and supplies	9,411	10,253	4,928	5,325
Total Office of the Assessor	<u>35,759</u>	<u>36,174</u>	<u>30,627</u>	<u>5,547</u>
Purchasing				
Salaries and benefits	4,030	3,830	3,780	50
Services and supplies	1,163	1,356	1,050	306
Expenditure reimbursements	(513)	(513)	(533)	20
Total Purchasing	<u>4,680</u>	<u>4,673</u>	<u>4,297</u>	<u>376</u>
Office of Budget and Analysis - Special Programs				
Services and supplies	6,598	6,649	4,863	1,786
Interfund transfers	126,301	98,815	94,790	4,025
Total Office of Budget and Analysis - Special Programs	<u>132,899</u>	<u>105,464</u>	<u>99,653</u>	<u>5,811</u>
Office of the County Counsel				
Salaries and benefits	22,207	22,641	22,640	1
Services and supplies	5,053	7,101	7,085	16
Expenditure reimbursements	(17,665)	(17,665)	(17,402)	(263)
Total Office of the County Counsel	<u>9,595</u>	<u>12,077</u>	<u>12,323</u>	<u>(246)</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
General government (continued):				
Personnel				
Salaries and benefits	10,496	10,546	10,527	19
Services and supplies	4,801	4,815	4,483	332
Expenditure reimbursements	(4,848)	(4,848)	(4,794)	(54)
Interfund transfers	-	2,100	2,100	-
Total Personnel	<u>10,449</u>	<u>12,613</u>	<u>12,316</u>	<u>297</u>
Risk Management				
Salaries and benefits	1,740	1,780	1,780	-
Services and supplies	604	564	519	45
Expenditure reimbursements	(2,230)	(2,230)	(2,358)	128
Total Risk Management	<u>114</u>	<u>114</u>	<u>(59)</u>	<u>173</u>
Registrar of Voters				
Salaries and benefits	8,564	8,564	6,859	1,705
Services and supplies	8,274	8,031	5,309	2,722
Fixed assets	-	83	78	5
Total Registrar of Voters	<u>16,838</u>	<u>16,678</u>	<u>12,246</u>	<u>4,432</u>
Information Services				
Salaries and benefits	4,308	4,438	4,427	11
Services and supplies	13,411	14,709	12,583	2,126
Fixed assets	97	241	241	-
Expenditure reimbursements	(1,396)	(1,396)	(1,357)	(39)
Total Information Services	<u>16,420</u>	<u>17,992</u>	<u>15,894</u>	<u>2,098</u>
Department of Revenue				
Salaries and benefits	8,324	8,458	7,251	1,207
Services and supplies	1,735	1,780	1,394	386
Fixed assets	-	8	8	-
Total Department of Revenue	<u>10,059</u>	<u>10,246</u>	<u>8,653</u>	<u>1,593</u>
Communication				
Salaries and benefits	13,905	13,839	13,517	322
Services and supplies	6,184	6,164	4,404	1,760
Expenditure reimbursements	(5,200)	(5,181)	(4,668)	(513)
Total Communication	<u>14,889</u>	<u>14,822</u>	<u>13,253</u>	<u>1,569</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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):				
Department of Planning & Development				
Salaries and benefits	10,724	10,986	10,980	6
Services and supplies	2,409	2,337	2,223	114
Expenditure reimbursements	(457)	(457)	(309)	(148)
Total Department of Planning & Development	<u>12,676</u>	<u>12,866</u>	<u>12,894</u>	<u>(28)</u>
Facilities and Fleet Department				
Salaries and benefits	26,877	27,085	27,082	3
Services and supplies	73,206	71,609	67,402	4,207
Fixed assets	-	10	-	10
Expenditure reimbursements	(55,825)	(54,661)	(52,330)	(2,331)
Interfund transfers	8,775	8,775	8,775	-
Total Facilities and Fleet Department	<u>53,033</u>	<u>52,818</u>	<u>50,929</u>	<u>1,889</u>
General government - subtotals:				
Salaries and benefits	172,482	172,740	168,276	4,464
Services and supplies	171,833	190,038	157,942	32,096
Fixed assets	97	349	344	5
Expenditure reimbursements	(128,113)	(127,142)	(123,754)	(3,388)
Interfund transfers	135,076	157,350	153,325	4,025
Total general government	<u>351,375</u>	<u>393,335</u>	<u>356,133</u>	<u>37,202</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	5,323	5,323	5,213	110
Services and supplies	610	608	459	149
Total Clerk Recorder	<u>5,933</u>	<u>5,931</u>	<u>5,672</u>	<u>259</u>
Department of Child Support Services				
Salaries and benefits	30,290	31,051	31,045	6
Services and supplies	6,558	6,472	6,428	44
Fixed assets	34	34	-	34
Total Department of Child Support Services	<u>36,882</u>	<u>37,557</u>	<u>37,473</u>	<u>84</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Public protection (continued):				
District Attorney				
Salaries and benefits	81,433	80,783	80,744	39
Services and supplies	20,317	21,195	20,448	747
Fixed assets	-	25	25	-
Expenditure reimbursements	(13,945)	(13,841)	(13,844)	3
Total District Attorney	<u>87,805</u>	<u>88,162</u>	<u>87,373</u>	<u>789</u>
Public Defender				
Salaries and benefits	41,121	41,075	40,309	766
Services and supplies	5,348	4,290	4,170	120
Fixed assets	-	15	11	4
Expenditure reimbursements	(338)	(338)	(346)	8
Total Public Defender	<u>46,131</u>	<u>45,042</u>	<u>44,144</u>	<u>898</u>
Pretrial Services				
Salaries and benefits	4,774	4,663	4,522	141
Services and supplies	929	885	751	134
Fixed assets	-	28	27	1
Total Pretrial Services	<u>5,703</u>	<u>5,576</u>	<u>5,300</u>	<u>276</u>
Criminal Justice Support				
Services and supplies	46,925	46,925	45,563	1,362
Total Criminal Justice Support	<u>46,925</u>	<u>46,925</u>	<u>45,563</u>	<u>1,362</u>
Sheriff Administration				
Salaries and benefits	114,618	114,667	106,579	8,088
Services and supplies	15,457	15,654	13,790	1,864
Fixed assets	665	724	476	248
Interfund transfers	-	1,380	1,380	-
Expenditure reimbursements	(7,834)	(8,012)	(4,628)	(3,384)
Total Sheriff Administration	<u>122,906</u>	<u>124,413</u>	<u>117,597</u>	<u>6,816</u>
Sheriff - Department of Correction Services				
Salaries and benefits	110,443	114,532	114,532	-
Total Sheriff - Department of Correction Services	<u>110,443</u>	<u>114,532</u>	<u>114,532</u>	<u>-</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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	28,461	26,459	26,459	-
Services and supplies	46,731	44,424	43,457	967
Fixed assets	-	17	17	-
Expenditure reimbursements	(175)	(175)	(184)	9
Total Department of Correction	<u>75,017</u>	<u>70,725</u>	<u>69,749</u>	<u>976</u>
Probation Department				
Salaries and benefits	108,967	111,986	111,986	-
Services and supplies	19,941	18,860	15,558	3,302
Fixed assets	-	18	18	-
Interfund transfers	-	110	110	-
Expenditure reimbursements	(376)	(370)	(446)	76
Total Probation Department	<u>128,532</u>	<u>130,604</u>	<u>127,226</u>	<u>3,378</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	5,483	5,528	5,189	339
Services and supplies	1,878	2,097	1,778	319
Interfund transfers	11	11	11	-
Expenditure reimbursements	(366)	(366)	(422)	56
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>7,006</u>	<u>7,270</u>	<u>6,556</u>	<u>714</u>
Medical Examiner - Coroner				
Salaries and benefits	2,832	2,832	2,832	-
Services and supplies	790	781	736	45
Total Medical Examiner - Coroner	<u>3,622</u>	<u>3,613</u>	<u>3,568</u>	<u>45</u>
Public protection - subtotals:				
Salaries and benefits	533,745	538,899	529,410	9,489
Services and supplies	165,484	162,191	153,138	9,053
Fixed assets	699	861	574	287
Interfund transfers	11	1,501	1,501	-
Expenditure reimbursements	(23,034)	(23,102)	(19,870)	(3,232)
Total public protection	<u>676,905</u>	<u>680,350</u>	<u>664,753</u>	<u>15,597</u>
Public ways and facilities:				
Measure B				
Salaries and benefits	-	2	2	-
Services and supplies	6,661	6,659	1,470	5,189
Interfund transfers	3,248	5,370	798	4,572
Total Measure B	<u>9,909</u>	<u>12,031</u>	<u>2,270</u>	<u>9,761</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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:				
Health Services Administration				
Salaries and benefits	49,357	50,661	48,336	2,325
Services and supplies	35,546	37,927	30,202	7,725
Fixed assets	185	735	182	553
Interfund transfers	-	78	78	-
Expenditure reimbursements	<u>(2,519)</u>	<u>(3,133)</u>	<u>(3,887)</u>	<u>754</u>
Total Health Services Administration	<u>82,569</u>	<u>86,268</u>	<u>74,911</u>	<u>11,357</u>
Mental Health Bureau				
Salaries and benefits	40,878	41,303	39,972	1,331
Services and supplies	240,234	246,742	231,016	15,726
Fixed assets	43	44	39	5
Expenditure reimbursements	<u>(3,871)</u>	<u>(3,512)</u>	<u>(2,553)</u>	<u>(959)</u>
Total Mental Health Bureau	<u>277,284</u>	<u>284,577</u>	<u>268,474</u>	<u>16,103</u>
Custody Health Services				
Salaries and benefits	35,803	35,803	34,750	1,053
Services and supplies	10,841	10,537	9,329	1,208
Fixed assets	512	467	169	298
Expenditure reimbursements	<u>(46,578)</u>	<u>(46,578)</u>	<u>(44,479)</u>	<u>(2,099)</u>
Total Custody Health Services	<u>578</u>	<u>229</u>	<u>(231)</u>	<u>460</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	17,303	16,911	16,668	243
Services and supplies	26,050	26,789	24,160	2,629
Expenditure reimbursements	<u>(3,609)</u>	<u>(3,460)</u>	<u>(3,998)</u>	<u>538</u>
Total Bureau of Alcohol & Drug Programs	<u>39,744</u>	<u>40,240</u>	<u>36,830</u>	<u>3,410</u>
Community Outreach Program				
Salaries and benefits	8,563	8,465	8,284	181
Services and supplies	6,252	6,369	5,827	542
Expenditure reimbursements	<u>(3,041)</u>	<u>(1,892)</u>	<u>(1,845)</u>	<u>(47)</u>
Total Community Outreach Program	<u>11,774</u>	<u>12,942</u>	<u>12,266</u>	<u>676</u>
Healthy Children				
Services and supplies	4,500	4,500	3,920	580
Fixed assets	-	200	-	200
Total Healthy Children	<u>4,500</u>	<u>4,700</u>	<u>3,920</u>	<u>780</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Health and sanitation - subtotals (continued):				
Salaries and benefits	151,904	153,143	148,010	5,133
Services and supplies	323,423	332,864	304,454	28,410
Fixed assets	740	1,246	390	856
Interfund transfers	-	278	78	200
Expenditure reimbursements	(59,618)	(58,575)	(56,762)	(1,813)
Total health and sanitation	<u>416,449</u>	<u>428,956</u>	<u>396,170</u>	<u>32,786</u>
Public assistance:				
In-House Support Services				
Services and supplies	78,908	80,140	78,792	1,348
Total In-House Support Services	<u>78,908</u>	<u>80,140</u>	<u>78,792</u>	<u>1,348</u>
Office of Affordable Housing				
Salaries and benefits	919	1,014	1,014	-
Services and supplies	177	144	122	22
Expenditure reimbursements	(1,030)	(1,074)	(1,086)	12
Total Office of Affordable Housing	<u>66</u>	<u>84</u>	<u>50</u>	<u>34</u>
Social Services Administration				
Salaries and benefits	264,981	265,905	265,665	240
Services and supplies	160,055	152,935	130,143	22,792
Fixed assets	19	783	759	24
Expenditure reimbursements	(339)	(205)	(158)	(47)
Total Social Services Administration	<u>424,716</u>	<u>419,418</u>	<u>396,409</u>	<u>23,009</u>
Nutrition Services to the Aged				
Salaries and benefits	847	864	863	1
Services and supplies	5,099	5,835	5,677	158
Total Nutrition Services to the Aged	<u>5,946</u>	<u>6,699</u>	<u>6,540</u>	<u>159</u>
Categorical Aids Payments				
Services and supplies	204,530	203,912	193,474	10,438
Expenditure reimbursements	-	-	(3,000)	3,000
Total Categorical Aids Payments	<u>204,530</u>	<u>203,912</u>	<u>190,474</u>	<u>13,438</u>
Public assistance - subtotals:				
Salaries and benefits	266,747	267,783	267,542	241
Services and supplies	448,769	442,966	408,208	34,758
Fixed assets	19	783	759	24
Expenditure reimbursements	(1,369)	(1,279)	(4,244)	2,965
Total public assistance	<u>714,166</u>	<u>710,253</u>	<u>672,265</u>	<u>37,988</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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	23,533	11,758	11,557	201
Interest and fiscal charges	1,291	13,041	12,924	117
Interfund transfers	951	951	845	106
Total debt service	<u>25,775</u>	<u>25,750</u>	<u>25,326</u>	<u>424</u>
Reserves:				
OMB Special Programs				
General government	3,656	-	-	-
Total OMB Special Programs	<u>3,656</u>	<u>-</u>	<u>-</u>	<u>-</u>
Office of the County Counsel				
General government	850	-	-	-
Total Office of the County Counsel	<u>850</u>	<u>-</u>	<u>-</u>	<u>-</u>
Personnel				
General government	2,100	-	-	-
Total Personnel	<u>2,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sheriff Administration				
Public protection	-	7	-	7
Total Sheriff Administration	<u>-</u>	<u>7</u>	<u>-</u>	<u>7</u>
Health Services Administration				
Health and sanitation	264	-	-	-
Total Health Services Administration	<u>264</u>	<u>-</u>	<u>-</u>	<u>-</u>
Bureau of Alcohol & Drug Programs				
Health and sanitation	226	226	-	226
Total Bureau of Alcohol & Drug Programs	<u>226</u>	<u>226</u>	<u>-</u>	<u>226</u>
Social Services Administration				
Public assistance	2,197	2,309	-	2,309
Total Social Services Administration	<u>2,197</u>	<u>2,309</u>	<u>-</u>	<u>2,309</u>
Nutrition Services to the Aged				
Public assistance	820	154	-	154
Total Nutrition Services to the Aged	<u>820</u>	<u>154</u>	<u>-</u>	<u>154</u>
Appropriation Contingencies				
Total Appropriation Contingencies	<u>91,145</u>	<u>84,874</u>	<u>-</u>	<u>84,874</u>
Total reserves	<u>101,258</u>	<u>87,570</u>	<u>-</u>	<u>87,570</u>
Total charges to appropriations	<u>\$ 2,295,837</u>	<u>\$ 2,338,245</u>	<u>\$ 2,116,917</u>	<u>\$ 221,328</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2011
(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	\$ 2,102,393
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>(126,228)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 1,972,165</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,116,917
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	(3,843)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(156,547)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 1,956,527</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, 2011

(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. 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. The County did not adopt budget for its Qualified Energy Conversation Bonds Debt Service Fund for the year ended June 30, 2011.

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.

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.

The Board of Supervisors
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 accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (the County), as of and for the fiscal year ended June 30, 2011, which collectively comprise the County’s basic financial statements and have issued our report thereon dated February 7, 2012, except for our report on the schedule of expenditures of federal awards, as to which the date is March 27, 2012. Our report includes a reference to other auditors. Our report also includes an explanatory paragraph indicating that the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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. Other auditors audited the financial statements of certain discrete component units (collectively, “Affiliates”) of the Housing Authority of the County of Santa Clara (the “Housing Authority”), a discrete component unit of the County, and 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 the Los Altos Hills County Fire District (collectively, “Fire Districts”), as described in our report on the County’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective 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 opinion 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 February 7, 2012.

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

Walnut Creek, California
February 7, 2012

Board of Supervisors
County of Santa Clara
San Jose, California

**Independent Auditor’s Report on Compliance with Requirements that
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Compliance

We have audited the County of Santa Clara’s, California (County), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County’s major federal programs for the fiscal year ended June 30, 2011. 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 \$263,109,679 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2011. 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.

In our opinion the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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 & Cunnell LLP

Walnut Creek, California
March 27, 2012

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Agriculture			
<u>Passed Through State Department of Social Services</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	\$ 26,561,128
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	10-10159	319,527
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	08-85173	1,177,103
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	<u>205,774</u>
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			28,263,532
<u>Passed Through State Department of Public Health</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85470 10/1/09-09/30/10	1,235,225
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85470 10/1/10-09/30/11	<u>3,498,538</u>
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children			4,733,763
ARRA - Child and Adult Care Food Program	10.558	08-85470	<u>41,673</u>
Subtotal Passed Through State Department of Public Health			4,775,436
<u>Passed Through State Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	43-10439-6066435-01	204,033
National School Lunch Program	10.555	43-10439-6066435-01	<u>300,852</u>
Subtotal of Child Nutrition Cluster			504,885
Total U.S. Department of Agriculture			<u>33,543,853</u>
U.S. Department of Commerce			
<u>Passed Through State Department of Public Health</u>			
CDC Public Health Emergency Response	11.206	n/a	152,974
<u>Passed Through City and County of San Francisco</u>			
Public Safety Interoperable Communications Grant Program	11.555	n/a	<u>1,339,675</u>
Total U.S. Department of Commerce			<u>1,492,649</u>
U.S. Department of Housing and Urban Development			
<u>Direct Programs</u>			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	B-10-UY-060007	2,030,134
Community Development Block Grants/Entitlement Grants	14.218	n/a	535,846
Subtotal Community Development Block Grants/Entitlement Grants			<u>2,565,980</u>
ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	B-09-UY-06-0007	<u>80,944</u>
Subtotal CDBG - Entitlement Grants Cluster			2,646,924
Supportive Housing Program	14.235	n/a	779,345
Home Investment Partnerships Program	14.239	M-10-UC060218	1,085,280
Home Investment Partnerships Program	14.239	Prior Year Ending Loan Balance	<u>13,639,156</u>
Subtotal HOME Investment Partnerships Program			14,724,436
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	S-09-UY-06-007	<u>212,087</u>
Total U.S. Department of Housing and Urban Development			<u>18,362,792</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Justice			
<u>Direct Programs</u>			
Juvenile Accountability Block Grants	16.523	CSA#176-10	\$ 186,718
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2008-JL-FX-0095	\$ 144,243
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2009-JL-FX-0107	290,720
Subtotal Part E - Developing, Testing and Demonstrating Promising New Programs			434,963
Crime Victim Assistance	16.575	2009-VT-BX-K0003	23,144
State Criminal Alien Assistance Program	16.606	n/a	1,591,662
Forensic DNA Backlog Reduction Program	16.741	2009-DN-BX-K079	160,581
Forensic DNA Backlog Reduction Program	16.741	2010-DN-BX-K064	236,378
Subtotal Forensic DNA Backlog Reduction Program			396,959
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-DJ-BX-0883	5,789
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0531	19,029
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008-DJ-BX-0220	5,092
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0821	59,489
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			89,399
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	2009-SB-B9-0976	151,290
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	ZP09010430	249,280
Subtotal ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government			400,570
ARRA - Edward Byrne Memorial Competitive Grant Program	16.808	n/a	301,922
Subtotal Direct Programs			3,425,337
<u>Passed Through California Emergency Management Agency</u>			
Crime Victim Assistance	16.575	UV100107430	81,810
Crime Victim Assistance	16.575	VW10290430	415,388
Subtotal Crime Victim Assistance			497,198
Violence Against Women Formula Grants	16.588	SU0901430	129,378
ARRA - Violence Against Women Formula Grants	16.588	RV09010430	172
Subtotal Violence Against Women Formula Grants			129,550
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DI-10-01-0430	82,007
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC10210430	529,661
Edward Byrne Memorial Justice Assistance Grant Program	16.738	MS10010430	275,000
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			886,668
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ08060430	9,163
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10070430	179,226
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			188,389
ARRA - State Victim Assistance Formula Grant Program	16.801	VS09010430	326
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	ZO09010430	344,231
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZM09010430	58,799
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZR09018650	67,636
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZA09010430	221,840
Subtotal ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government			348,275
Subtotal Passed Through California Emergency Management Agency			2,394,637
Total U.S. Department of Justice			5,819,974

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Transportation			
<u>Passed Through State Department of Transportation</u>			
Highway Planning and Construction	20.205	ESPL 5937 (162)	\$ 725,580
Highway Planning and Construction	20.205	HPLUL 5937 (163)	284,225
Highway Planning and Construction	20.205	CML 5937 (127)	336,064
Highway Planning and Construction	20.205	BRLO 5937 (047)	1,233,981
Highway Planning and Construction	20.205	BRLO 5937 (046)	1,053,175
Highway Planning and Construction	20.205	BHLO 5937 (096)	515,026
Highway Planning and Construction	20.205	BRLO 5937 (107)	14,061
Highway Planning and Construction	20.205	BRLO-5937 (109)	18,859
Highway Planning and Construction	20.205	BRLS 5937 (124)	172,978
Highway Planning and Construction	20.205	BRLO 5937 (106)	141,726
Highway Planning and Construction	20.205	BRLS 5937 (123)	218,551
Highway Planning and Construction	20.205	STPLZ 5937 (058)	26,175
Highway Planning and Construction	20.205	BHLO 5937 (174)	29,496
Highway Planning and Construction	20.205	BRLO 5937 (176)	8,719
Highway Planning and Construction	20.205	STPL 5937 (171)	62,834
Highway Planning and Construction	20.205	STPL 5937 (131)	642,337
Highway Planning and Construction	20.205	TCSPL08 5937 (128)	3,040
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	157,677
Highway Planning and Construction	20.205	BRLS 5937 (169)	10,996
Highway Planning and Construction	20.205	HSIPL 5937 (138)	65,391
Highway Planning and Construction	20.205	HRRRL 5937 (129)	49,246
Highway Planning and Construction	20.205	BRLO 5937 (168)	63,722
Highway Planning and Construction	20.205	HRRRL 5937 (141)	326,359
Highway Planning and Construction	20.205	TLSPL 5937 (122)	495,491
Highway Planning and Construction	20.205	BHLO 5937 (139)	46,042
Highway Planning and Construction	20.205	BHLO 5937 (142)	48,245
Highway Planning and Construction	20.205	BHLO 5937 (146)	8,741
Highway Planning and Construction	20.205	BHLO 5937 (143)	43,252
Highway Planning and Construction	20.205	BHLO 5937 (147)	10,795
Highway Planning and Construction	20.205	BHLO 5937 (140)	47,258
Highway Planning and Construction	20.205	BHLO 5937 (144)	9,007
Highway Planning and Construction	20.205	BHLO 5937 (148)	11,942
Highway Planning and Construction	20.205	BHLO 5937 (145)	42,507
Highway Planning and Construction	20.205	BHLO 5937 (150)	9,029
Highway Planning and Construction	20.205	BHLO 5937 (149)	9,838
Highway Planning and Construction	20.205	BHLO 5937 (141)	45,874
Highway Planning and Construction	20.205	BPMP 5937 (155)	843
Highway Planning and Construction	20.205	BPMP 5937 (156)	754
Highway Planning and Construction	20.205	BPMP 5937 (158)	709
Highway Planning and Construction	20.205	BPMP 5937 (151)	665
Highway Planning and Construction	20.205	BPMP 5937 (159)	665
Highway Planning and Construction	20.205	BPMP 5937 (160)	798
Highway Planning and Construction	20.205	BPMP 5937 (161)	1,154
Highway Planning and Construction	20.205	BPMP 5937 (152)	35,317
Highway Planning and Construction	20.205	BPMP 5937 (153)	35,904
Highway Planning and Construction	20.205	BPMP 5937 (154)	2,221
Highway Planning and Construction	20.205	BPMP 5937 (157)	665
ARRA - Highway Planning and Construction	20.205	ESPL 5937 (132)	5,571
ARRA - Highway Planning and Construction	20.205	ESPL 5937 (133)	300,000
Subtotal Highway Planning and Construction			7,373,505
<u>Passed Through State Department of California Parks</u>			
Recreational Trails Program	20.219	RT-43-006	76,493
Subtotal Highway Planning and Construction Cluster			7,449,998
<u>Passed Through State Office of Traffic Safety</u>			
State and Community Highway Safety	20.600	n/a	303,447
State and Community Highway Safety	20.600	AL0980	163,463
Subtotal State and Community Highway Safety			466,910
Total U.S. Department of Transportation			7,916,908

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Health and Human Services			
<u>Direct Programs</u>			
Enhance the Safety of Children Affected By Parental Methamphetamine or Other Substance Abuse	93.087	n/a	\$ 753,991
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	n/a	1,709,598
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	n/a	235,862
Centers for Disease Control and Prevention-Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	n/a	381,466
Child Support Enforcement Demonstrations and Special Projects	93.601	IV-356	25,000
ARRA – Grants to Health Center Programs	93.703	n/a	748,892
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	n/a	860,603
Subtotal Direct Programs			4,715,412
<u>Passed Through State Department of Public Health</u>			
Immunization Grants	93.268	n/a	937,070
HIV Prevention Activities_Health Department Based	93.940	10-95291	426,339
Subtotal Passed Through State Department of Public Health			1,363,409
<u>Passed Through Council on Aging Silicon Valley</u>			
<u>Aging Cluster:</u>			
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-1011-11	\$ 2,083,974
Nutrition Services Incentive Program	93.053	AP-1011-11	892,443
Subtotal Aging Cluster			2,976,417
<u>Passed Through State Department of Education</u>			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	n/a	1,686,069
<u>Passed Through State Department of Health Services</u>			
Public Health Emergency Preparedness	93.069	n/a	1,619,738
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	n/a	578,214
Projects for Assistance in Transition from Homelessness (PATH)	93.150	n/a	260,275
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLPPP	106,265
Refugee and Entrant Assistance_Discretionary Grants	93.576	10-43-90841-00	40,000
Refugee and Entrant Assistance_Discretionary Grants	93.576	10-43-90840-00	331,031
Refugee and Entrant Assistance_Discretionary Grants	93.576	09-43-90840-00	117,414
Refugee and Entrant Assistance_Discretionary Grants	93.576	10-43-90842-00	4,136
Refugee and Entrant Assistance_Discretionary Grants	93.576	09-43-90842-00	1,225
Refugee and Entrant Assistance_Discretionary Grants	93.576	n/a	22,315
Subtotal Refugee and Entrant Assistance_Discretionary Grants			516,121
Children's Health Insurance Program	93.767	CCS Admin	398,930
<u>Medical Assistance Program:</u>			
Children Medical Services	93.778	Foster Care	799,451
Children Medical Services	93.778	CHDP	588,550
Refugee Assistance Program	93.778	CCS Admin	3,073,930
Refugee Assistance Program	93.778	CCS PPC	106,061
Subtotal Medical Assistance Program			4,567,992
Health Care and Other Facilities	93.887	n/a	399,960
National Bioterrorism Hospital Preparedness Program	93.889	PS0423	679,543
HIV Emergency Relief Project Grants	93.914	n/a	2,981,783
HIV Care Formula Grants	93.917	10-95291	852,743
Public Health Traineeships	93.964	201043 AFLP	264,913
Public Health Traineeships	93.964	201043 BIH	216,425
Public Health Traineeships	93.964	2010-43 MCH	123,184
Subtotal Public Health Traineeships			604,522

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Maternal and Child Health Services Block Grant to the States	93.994	2010-43 AFLF	\$ 75,113
Maternal and Child Health Services Block Grant to the States	93.994	2010-43 BIH	276,638
Maternal and Child Health Services Block Grant to the States	93.994	2010-43 MCH	186,137
Subtotal Maternal and Child Health Services Block Grant to the States			\$ 537,888
Subtotal Passed Through State Department of Health Services			14,103,974
<u>Passed Through State Department of Child Support Services</u>			
Child Support Enforcement	93.563	IV-356	23,258,059
ARRA - Child Support Enforcement	93.563	IV-356	920,883
Subtotal Child Support Enforcement			24,178,942
<u>Passed Through State Department of Social Services</u>			
Promoting Safe and Stable Families	93.556	n/a	1,034,399
Temporary Assistance for Needy Families (TANF) Cluster:			
Temporary Assistance for Needy Families	93.558	n/a	112,792,653
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	n/a	14,420,455
Subtotal TANF Cluster			127,213,108
Refugee and Entrant Assistance_State Administered Programs	93.566	n/a	1,228,879
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	n/a	439,500
Stephanie Tubbs Jones Child Welfare Services Program	93.645	n/a	1,438,716
Child Welfare Research Training or Demonstration	93.648	n/a	132,371
ARRA - Prevention and Wellness – Communities Putting Prevention to Work	93.724	n/a	2,063,337
Funding Opportunities Announcement (FOA)			
Foster Care_Title IV-E	93.658	n/a	35,924,341
ARRA - Foster Care_Title IV-E	93.658	n/a	687,979
Subtotal Foster Care_Title IV-E			36,612,320
Adoption Assistance	93.659	n/a	13,505,639
ARRA - Adoption Assistance	93.659	n/a	908,453
Subtotal Adoption Assistance			14,414,092
Social Services Block Grant	93.667	n/a	5,626,346
Chafee Foster Care Independence Program	93.674	n/a	475,081
Medical Assistance Program	93.778	n/a	61,318,111
Subtotal Passed Through State Department of Social Services			251,996,260
<u>Passed Through State Department of Mental Health</u>			
Block Grants for Community Mental Health Services	93.958	n/a	709,049
<u>Passed Through State Department of Alcohol and Drugs</u>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	n/a	503,369
Block Grants for Prevention and Treatment of Substance Abuse	93.959	n/a	11,058,566
Subtotal Passed Through State Department of Alcohol and Drugs			11,561,935
Total U.S. Department of Health and Human Services			313,291,467
U.S. Department of Homeland Security			
<u>Passed Through the California Emergency Management Agency</u>			
Pre Disaster Mitigation	97.017	2008-0001	110,728
Emergency Management Performance Grants	97.042	2010-0044	441,755
09 Homeland Security Grant	97.067	2009-0019	2,028,162
08 Homeland Security Grant	97.067	2008-0006	1,752,151
10 Homeland Security Grant	97.067	2010-0085	67,877
Subtotal Homeland Security Grant			3,848,190
Buffer Zone Protection Program (BZPP)	97.078	2008-0008	384,327
Subtotal Passed Through California Emergency Management Agency			4,785,000
<u>Passed Through City and County of San Francisco</u>			
08 Urban Area Security Initiative	97.067	2008-0006	2,230,530
09 Urban Area Security Initiative	97.067	2008-0019	772,774
Subtotal Passed Through City and County of San Francisco			3,003,304
Total U.S. Department of Homeland Security			7,788,304
Total Expenditures of Federal Awards			\$ 388,215,947

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

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, 2011, 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. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix “ARRA” in the federal or pass-through grantor title.

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. In addition, the outstanding balance of prior year’s loans that have significant continuing compliance requirements has been included in the total federal expenditures for the HOME Investment Partnerships program (see Note 6) and the total federal expenditures for the State Criminal Alien Assistance Program (SCAAP) includes the awarded funds as a one-time payment that is expended as of the date received pursuant to the *SCAAP Guidance and Application*.

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.

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:

Grantor/Pass-through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures
<i>Direct:</i>			
Shelter Plus Care	n/a	14.238	\$ 2,406,647
Section 8 Project-Based Cluster			
Section 8 Moderate Rehabilitation Single Room Occupancy	n/a	14.249	543,167
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	n/a	14.856	610,620
Subtotal Section 8 Project-Based Cluster			<u>1,153,787</u>
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	n/a	14.871	2,545,699
Family Unification Program (FUP)	n/a	14.880	1,503,059
Subtotal Housing Voucher Cluster			<u>4,048,758</u>
Mainstream Vouchers	n/a	14.879	706,619
Section 8 Moving To Work Demonstration Program	n/a	14.881	254,793,868
Total U.S. Department of Housing and Urban Development			<u>263,109,679</u>
Total Expenditures of Federal Awards			<u>\$ 263,109,679</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Note 5 – Amounts 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	\$ 237,982
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	167,552
Community Development Block Grants/Entitlement Grants	14.218	2,007,412
Supportive Housing Program	14.235	478,450
Home Investment Partnerships Program	14.239	998,540
ARRA - Community Development Block Grants ARRA Entitlement Grants (CDGB-R)	14.253	80,652
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	212,087
Juvenile Accountability Block Grant	16.523	84,758
Crime Victim Assistance	16.575	497,198
ARRA - Violence Against Women Formula Grants	16.588	172
Edward Byrne Memorial Justice Assistance Grant Program	16.738	523,224
ARRA - State Victim Assistance Formula Grant Program	16.801	326
ARRA - Edward Byrne Memorial Justice Assistance (JAG) Program/Grants to States and Territories	16.803	341,494
ARRA - Edward Byrne Memorial Justice Assistance (JAG) Program/Grants to Units of Local Government	16.804	239,892
State and Community Highway Safety	20.600	8,500
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	2,083,974
Nutrition Services Incentive Program	93.053	892,443
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	13,750
Projects for Assistance in Transition from Homelessness (PATH)	93.150	259,292
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	310,398
Temporary Assistance for Needy Families	93.558	3,544,896
Refugee and Entrant Assistance State Administered Programs	93.566	340,206
Refugee and Entrant Assistance Discretionary Grants	93.576	29,815
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	328,464
Chafee Foster Care Independence Program	93.674	386,597
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	352,876
National Bioterrorism Hospital Preparedness Program	93.889	539,501
HIV Emergency Relief Project Grants	93.914	647,578
HIV Care Formula Grants	93.917	629,307
HIV Prevention Activities Health Department Based	93.940	253,601
Block Grants for Community Mental Health Services	93.958	103,178
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2,736,256
Public Health Traineeships	93.964	264,896
Maternal and Child Health Services Block Grant to the States	93.994	69,832
Emergency Management Performance Grants	97.042	270,694
Homeland Security Grant	97.067	1,043,684

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Note 6 – 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). As of June 30, 2011, the total amount of HOME loans outstanding subject to continuing compliance requirements was \$13,639,156 which is included in the SEFA.

Note 7 – California Department of Aging (CDA) Grants

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-1011-11	\$ 134,976	\$ 2,083,974
Nutrition Services Incentive Program	93.053	AP-1011-11	n/a	892,443

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Note 8 – Program and Cluster Program Totals

The following table summarizes clusters funded by various sources or grants whose totals are not shown on the SEFA. The following table summarizes these programs:

Program Title	CFDA Number	Expenditures
<i>Crime Victim Assistance</i>		
Direct	16.575	\$ 23,144
Passed Through California Emergency Management Agency	16.575	497,198
Total Crime Victim Assistance		\$ 520,342
<i>JAG Program Cluster</i>		
Edward Byrne Memorial Justice Assistance Grant Program		
Direct	16.738	\$ 89,399
Passed Through California Emergency Management Agency	16.738	886,668
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories		
Passed Through California Emergency Management Agency	16.803	344,231
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government		
Direct	16.804	400,570
Passed Through California Emergency Management Agency	16.804	348,275
Total JAG Program Cluster		\$ 2,069,143
<i>Medical Assistance Program</i>		
Passed Through State of California, Department of Health Services	93.778	\$ 4,567,992
Passed Through State of California, Department of Social Services	93.778	61,318,111
Total Medical Assistance Program		\$ 65,886,103
<i>Homeland Security Grant</i>		
Homeland Security Grant		
Passed Through the California Emergency Management Agency	97.067	\$ 3,848,190
Urban Area Security Initiative		
Passed Through City and County of San Francisco	97.067	3,003,304
Total Homeland Security Grant		\$ 6,851,494

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Note 9 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victims Compensation & Government Claims Board

California Emergency Management Agency grant expenditures:

The following represents grant expenditures for Department of Justice grants and Department of Homeland Security grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2011:

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total	CFDA No. of Actual Non-match Amount
Victim Witness Assistance - Cal EMA	VW10290430					
Operating Expenses	7/1/10-6/30/11		\$ 415,388	\$ -	\$ 415,388	
Total		\$ 424,964	\$ 415,388	\$ -	\$ 415,388	16.575
ARRA - Victim/Witness Assistance-VAWA	RV09010430					
Operating Expenses	7/1/09-9/30/10		\$ 172	\$ 8,154	\$ 8,326	
Total		\$ 32,615	\$ 172	\$ 8,154	\$ 8,326	16.588
ARRA - Sexual Assault Specialized Response Unit	SU0901430					
Personnel Services	9/1/09 - 12/31/11		\$ 82,931	\$ -	\$ 82,931	
Operating Expenses	9/1/09 - 12/31/11		46,447	-	46,447	
Total		\$ 250,000	\$ 129,378	\$ -	\$ 129,378	16.588
Anti-Drug Abuse Enforcement Program	DC10210430					
Personnel Services	7/1/10-6/30/11		\$ 133,026	\$ -	\$ 133,026	
Operating Expenses	7/1/10-6/30/11		389,211	-	389,211	
Equipment	7/1/10-6/30/11		7,424	-	7,424	
Total		\$ 529,661	\$ 529,661	\$ -	\$ 529,661	16.738
Marijuana Suppression Program	MS10010430					
Personnel Expenses	7/1/10-6/30/11		\$ 247,500	\$ -	\$ 247,500	
Operating Expenses	7/1/10-6/30/11		27,500	-	27,500	
Total		\$ 275,000	\$ 275,000	\$ -	\$ 275,000	16.738
Paul Coverdell Forensic Sciences Improvement Grant	CQ10070430					
Operating Expenses	10/1/10-12/31/11		\$ 54,226	\$ -	\$ 54,226	
Equipment	10/1/10-12/31/11		125,000	-	125,000	
Total		\$ 184,727	\$ 179,226	\$ -	\$ 179,226	16.742
Paul Coverdell Forensic Sciences Improvement Grant	CQ08060430					
Operating Expenses	10/1/08-11/30/10		\$ 9,163	-	\$ 9,163	
Total		\$ 107,350	\$ 9,163	\$ -	\$ 9,163	16.742
ARRA - State Victim Assistance Formula Grant Program	VS09010430					
Operating Expenses	7/1/09-9/30/10		\$ 326	\$ 9,080	\$ 9,406	
Total		\$ 45,398	\$ 326	\$ 9,080	\$ 9,406	16.801
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	ZO09010430					
Operating Expenses	10/1/09-6/30/12		\$ 344,231	\$ -	\$ 344,231	
Total		\$ 1,981,602	\$ 344,231	\$ -	\$ 344,231	16.803
ARRA - California Multi-jurisdictional Methamphetamine Enforce	ZM09010430					
Personnel Services	3/1/10-2/28/12		\$ 58,799	\$ -	\$ 58,799	
Total		\$ 100,287	\$ 58,799	\$ -	\$ 58,799	16.804
ARRA - ADA Enforcement Team	ZA09010430					
Personnel Expenses	3/1/2010-2/28/12		\$ 71,123	\$ -	\$ 71,123	
Operating Expenses			150,717	-	150,717	
Total		\$ 492,869	\$ 221,840	\$ -	\$ 221,840	16.804
Underserved Victims Advocacy & Outreach Program	UV10010430					
Operating Expenses	10/01/2010-09/30/11		\$ 81,810	\$ 29,896	\$ 111,706	
Total		\$ 156,250	\$ 81,810	\$ 29,896	\$ 111,706	16.575

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2011

Note 9 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victims Compensation & Government Claims Board (Continued)

California Emergency Management Agency grant expenditures (Continued)

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total	CFDA No. of Actual Non-match Amount
Edward Byrne Memorial Justice Assistance Grant Program	DI-10-01-0430					
Operating Expenses	1/1/11-12/31/11		\$ 82,007	\$ -	\$ 82,007	
Total		\$ 504,492	\$ 82,007	\$ -	\$ 82,007	16.738
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)/Grants To Units of Local Government	ZR09018650					
Operating Expenses	3/10/10-9/30/12		\$ 67,636	\$ -	\$ 67,636	
Total		\$ 256,000	\$ 67,636	\$ -	\$ 67,636	16.804
Pre Disaster Mitigation	2008-0001					
Operating Expenses	9/25/08-12/31/11		\$ 110,728	\$ -	\$ 110,728	
Total		\$ 187,500	\$ 110,728	\$ -	\$ 110,728	97.017
Emergency Management Performance Grants	2010-0044					
Operating Expenses	7/1/10-6/30/11		\$ 441,755	\$ -	\$ 441,755	
Total		\$ 445,789	\$ 441,755	\$ -	\$ 441,755	97.042
Homeland Security Grant Program	2009-0019; Cal EMA ID#85-00000					
Personal Services	10/1/09 - 12/31/11	\$ -	\$ 12,375	\$ -	\$ 12,375	
Operating Expenses			2,015,787	\$ -	2,015,787	
Total		\$ 4,064,764	\$ 2,028,162	\$ -	\$ 2,028,162	97.067
Homeland Security Grant Program	2008-0006; OES#85-00000					
Personal Services	5/15/08-5/31/11	\$ -	\$ 5,442	\$ -	\$ 5,442	
Operating Expenses			1,746,709	\$ -	1,746,709	
Total		\$ 4,188,404	\$ 1,752,151	\$ -	\$ 1,752,151	97.067
Homeland Security Grant Program	2010-0085; OES#85-00000					
Operating Expenses	10/25/10-12/31/12		\$ 67,877	\$ -	\$ 67,877	
Total		\$ 4,102,191	\$ 67,877	\$ -	\$ 67,877	97.067
Buffer Zone Protection Program (BZPP)	2008-0008; CalEMA ID#85-00000					
Operating Expenses	5/9/09-5/31/11		\$ 384,327	\$ -	\$ 384,327	
Total		\$ 386,060	\$ 384,327	\$ -	\$ 384,327	97.078

The following represents the State of California Office of Emergency Services summary grant expenditures for the fiscal year ended June 30, 2011. This information is included in the County's single audit report at the request of the State of California's Office of Emergency Services.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - Cal EMA	VW10290430				
Operating Expenses	7/1/10 to 6/30/11		\$ 342,908	\$ -	\$ 342,908
Total		\$ 348,299	\$ 342,908	\$ -	\$ 342,908
Child Abuser Vertical Prosecution Program	VB 08060430				
Personnel Services	7/1/08 to 12/31/11		\$ 117,924	\$ -	\$ 117,924
Total		\$ 813,700	\$ 117,924	\$ -	\$ 117,924
High Technology Theft Apprehension & Prosecution	HT 08090430				
Personnel Services	7/1/08 to 12/31/11		\$ 653,076	\$ -	\$ 653,076
Operating Expenses			631,729	\$ -	631,729
Total		\$ 5,610,795	\$ 1,284,805	\$ -	\$ 1,284,805

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, 2011. This information is included in the County's single audit report at the request of the California Victims Compensation & Government Claims Board.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - BOC	VCGC9059				
Personnel Services	7/1/10 to 6/30/11		\$ 925,491	\$ -	\$ 925,491
Operating Expenses			167,240	\$ -	167,240
Total		\$ 1,131,113	\$ 1,092,731	\$ -	\$ 1,092,731
Victim Witness Restitution for Crime Victims	VCGC9078				
Personnel Services	7/1/09 to 6/30/11		\$ 302,045	\$ -	\$ 302,045
Operating Expenses			955	\$ -	955
Total		\$ 593,000	\$ 303,000	\$ -	\$ 303,000

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

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?	None noted
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2011

Section I – Summary of Auditor’s Results (Continued)

Identification of major programs:

1. CFDA No. 14.239 Home Investment Partnerships Program
2. *JAG Program Cluster*
CFDA No. 16.738 Edward Byrne Memorial Justice Assistance Grant Program
CFDA No. 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories
CFDA No. 16.804 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government
3. CFDA No. 93.268 Immunization Grants
4. *TANF Cluster*
CFDA No. 93.558 Temporary Assistance for Needy Families (TANF) State Programs
CFDA No. 93.714 ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
5. CFDA No. 93.563 Child Support Enforcement (ARRA and non-ARRA)
6. CFDA No. 93.658 Foster Care Title IV-E (ARRA and non-ARRA)
7. CFDA No. 93.659 Adoption Assistance (ARRA and non-ARRA)
8. CFDA No. 93.667 Social Services Block Grant
9. CFDA No. 93.914 HIV Emergency Relief Project Grants
10. CFDA No. 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between
Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2011

Financial Statement Findings

Reference Number: 2010-1 – *Workers’ Compensation Fund Deficit Net Assets Balance*

Audit Finding: During our audit, we noted that the County has not set user fees to recover the full cost of disability, medical, and rehabilitation expenses and related costs. At June 30, 2010, the Fund has a deficit net assets balance in the amount of \$29.3 million, an increase of \$0.9 million when compared to prior year’s deficit of \$28.4 million. The financial statement impact of this situation is that the Fund is financing its past services and has subsidized the operations of several of the County’s funds. It is therefore not acting as an internal service fund whereby the revenues earned are enough to cover its operating expenses, but more like a fund operating on a cash basis whereby the cash received from the other departments are enough to cover its current cash outflows.

Recommendation: We recommend the County evaluate its ability to fund its workers’ compensation program on an accrual basis within a reasonable period of time to determine whether or not to discontinue the use of an internal service fund.

Status: In progress. At June 30, 2011, the Fund has a deficit net assets balance in the amount of \$33.7 million, an increase of \$4.4 million when compared to prior year’s deficit of \$29.3 million. The County is planning to increase its charges rate to other funds to cure the deficit net assets balance starting fiscal year 2014.

Federal Award Findings

Reference Number: 2010-1 – *Schedule of Expenditures of Federal Awards Completeness*

Program Identification: U.S. Department of Justice
Passed Through California Emergency Management Agency
CFDA No. 16.803 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
CFDA No. 16.804 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government

Audit Finding: During our audit, we noted that the County included misstatements in its draft schedule of expenditures of federal awards (SEFA). This includes overstatement of CFDA 16.803 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories by \$1,304,863 due to the inclusion of duplicate amounts reported from various County departments. In addition, the County overstated the total CFDA 16.803 program amount by \$1,637,371 as this was funded with CFDA 16.804.

Status: Corrected based on our current year program requirement tests.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Year Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2011

Reference Number:	2010-2 – Subrecipient Monitoring
Program Identification:	U.S. Department of Health and Human Services Passed Through State Department of Public Health CFDA No. 93.268/93.712 Immunization Grants and ARRA - Immunization
Audit Finding:	During our testwork over the subrecipient monitoring compliance requirements, we noted that the County’s immunization program subawarded federal funds to its subrecipients. However, the County did not require its subrecipients to submit their single audit reports. The County did not identify the subrecipients for which single audits are performed, obtain and review the most recent single audit reports to determine if the subrecipients had a completed audit within the required time frame, nor ascertain if these subrecipients had findings or questioned costs related to the grants provided.
Status:	Finding not applicable in fiscal year 2011 because there are no Immunization Grants passed through subrecipients.
Reference Number:	2010-3 – Special Tests & Provisions – Housing Quality Standards
Program Identification:	U.S. Department of Housing and Urban Development CFDA No. 14.239 HOME Investment Partnerships Program
Audit Finding:	During the performance of our testing over the Housing Quality Standards compliance requirements, we noted that out of the 8 projects tested, the Office of Affordable Housing (OAH) did not perform the housing quality inspection for 6 projects within the required timeframe. For the remaining 2 projects selected for testing, inadequate documentation was provided by OAH to support its completion of the required inspections.
Status:	Corrected based on our current year program requirement tests. MGO noted that the OAH performed and completed housing quality standards inspection on the 8 projects in question subsequent to the required timeframe.